

# VENTURA COUNTY ASSESSMENT PRACTICES SURVEY

**MAY 1997**

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## FOREWORD

The adoption of Article XIII A (Proposition 13) by the voters in 1978 brought about significant changes in the way local government and public schools are funded. This Constitutional article drastically reduced property tax revenues by rolling back both the assessed value and the tax rate. In addition, it placed restrictions on the growth of assessed values and prevented local agencies from increasing the property tax rate. Although the property tax is a "local" tax, local governments have almost no control over the amount of property taxes to be collected or how the taxes are allocated among the county, cities, special districts, and schools.

The Article XIII A assessment requirements significantly altered the county assessor's property valuation program. Instead of appraising all properties periodically in accordance with a cyclical plan, as was done prior to Article XIII A, most kinds of real property are reappraised only if there has been a change in ownership, new construction, or a decline in value. The fair market value as of the date of change in ownership is the "base year value," and subsequent assessments cannot be increased by more than 2 percent annually. If on any subsequent lien date the adjusted base year value exceeds the current fair market value of the property, the market value must be enrolled as the taxable value for that year. If there is new construction subsequent to the change in ownership, the value of the newly constructed property is determined and becomes an addition to the original base year value. This separate base year value is also subject to the maximum 2 percent annual increase in assessed value. Due to legislative definitions of what constitutes a change in ownership or new construction for property tax purposes, many types of ownership transfers and several types of construction are excluded from reassessment, although the assessor must nevertheless update the property ownership and physical characteristics records.

What does this mean to the assessor's valuation program? Under a cyclical reappraisal system, the assessor plans the reappraisal workload years in advance. Under the Article XIII A system, the assessor can only estimate workloads. In addition to discovering all changes in ownership and new construction, the assessor's staff must also analyze each such event to determine whether it is or is not subject to reassessment, as required by a complex set of constitutional and statutory requirements. Now, property tax appraisers must be both skilled in appraisal techniques and more knowledgeable of property tax law.

The recession of the early 1990's created additional complications for California counties and assessors. As a result of a weak real estate market, a large number of properties declined in value below the Article XIII A maximum, new construction and changes in ownership slowed greatly, and the changes in ownership that have occurred result in decreases or only modest increases in assessed value. Although the slowdown in new construction and changes in ownership decreased that portion of the assessor's workload, the decline in value problem has created an enormous increase in the workload for reappraisals and assessment appeals.

Because of property value declines, the rate of property tax revenue increases that had been experienced in the past lessened. At the same time, state budget problems have resulted in substantially reduced property tax allocations and other budgetary support for most counties. This has made it extremely difficult for most counties to provide adequate funding for assessors' offices as well as for many other important programs.

All of the factors discussed above contribute to making the local property tax a more difficult tax to administer, and seemingly more difficult to fund. Yet, the property tax continues to be one of the most important sources of revenue for local government and public schools. Further, the property tax continues to be the most visible of all state and local taxes; visible to those who pay the property tax and to all levels of government that are dependent upon it. This visibility and the continued importance of the tax require that good assessment practices, efficient administration, and total conformity with the law be achieved by all agencies involved in the administration of the property tax.

Although the primary responsibility for local property tax assessment is properly a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties is to conduct periodic surveys of local assessment practices. The Board's Assessment Standards Division (ASD) conducts these surveys.

Assessment practices surveys are required by Sections 15640 through 15646 of the Government Code. These statutes require that a survey is to be repeated or supplemented at least once in every five years, which is the schedule for the current round of surveys. The surveys must include, at a minimum, a sampling of assessments of the local assessment roll followed by research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the valuation of taxable property; compliance with state law and regulations; the volume of assessing work and other duties to be done; and the assessor's needs for maps, records, equipment, supplies, and personnel. Due to budget and staffing limitations, our survey of Ventura County focuses on tax revenue-related problems and compliance with statutes and regulations. Administration, personnel, systems, equipment, mapping, exemptions, and fiscal needs were reviewed or reported in this survey only as they related directly to revenue or legal issues.

Within 30 days after receiving a copy of the survey report, the county assessor may file a written response to the Board's findings and recommendations. The survey report, together with the county assessor's response and the Board's comments regarding the response, constitutes the final survey report which is distributed to the County Board of Supervisors, Assessment Appeals Board, the Grand Jury, the Governor, the Attorney General, the Senate, and the Assembly.

Fieldwork for this report was conducted by Assessment Standards Division staff during June and July of 1996. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Glen E. Gray, the Ventura County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief  
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May 1997

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## TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS .....	1
A. Introduction .....	1
B. Summary .....	2
C. Recommendations and Suggestions .....	7
D. Budget and Workload Comparisons .....	10
II. ADMINISTRATION .....	16
A. Introduction .....	16
B. Policy and Procedures .....	16
1. Assembly Bill 818 .....	16
2. Budget and Workload.....	16
3. Escaped Assessment and Caption on Roll .....	17
4. Training .....	18
III. REAL PROPERTY ASSESSMENT .....	20
A. Introduction .....	20
1. Change in Ownership .....	21
a. Document Processing.....	21
b. Change in Ownership Statement .....	21
c. Direct Enrollment Program .....	23
d. Legal Entity Ownership Program.....	24
e. Improvement Bonds.....	25
2. New Construction.....	25
a. Valuation of Subdivision Lots.....	26
b. Self-reported New Construction.....	27
c. Construction Costs .....	27
d. Building Permit Processing.....	28
e. Tenant Improvements.....	30
f. Improvements on the Real Estate of Others.....	30
B. Special Property Types and Procedures .....	30
1. Valuation of Income Producing Property.....	31
2. Rural Property .....	33
3. Decline in Value.....	34
4. Assessment Appeals.....	35
5. Assessment Roll Changes .....	37
6. Misfortune and Calamity.....	38
7. Low - Valued Property Exemption.....	39
C. Special Property Valuation and Procedures .....	40
1. Manufactured Homes .....	40
2. California Land Conservation Act .....	42

TABLE OF CONTENTS  
(Continued)

3.	Possessory Interests .....	45
4.	Water Companies .....	46
5.	Historical Property .....	48
6.	Taxable Government Owned Property.....	49
7.	Cable Television.....	50
IV.	BUSINESS PROPERTY ASSESSMENT .....	52
A.	Introduction .....	52
B.	Audits .....	53
1.	Mandatory Audits.....	53
2.	Waivers.....	54
3.	Escape Assessments .....	54
C.	Business Property Statements .....	56
D.	Change in Control .....	57
E.	Leased Equipment .....	58
F.	Propane Tanks .....	58
G.	Pollution Control Equipment .....	58
H.	Aircraft .....	59
I.	Racehorses.....	60
J.	Vessels.....	61
K.	Computer Valuation .....	63
APPENDIX		
	The Assessment Sampling Program.....	64

## I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

### A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization shall:

" . . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the Board's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process is carried out was developed after consultation with the county assessors by the staff of the Assessment Standards Division.

This report is the culmination of a review of the Ventura County Assessor's operation that began with ASD staff's appraisals of properties selected on the bases of assessment category and assessed value. The survey team analyzes the results of the assessment sampling, then examines current practices and procedures in key areas to see whether the most significant problems identified in the assessment sampling still exist in the assessor's operation. Finally, the survey team offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his or her program.



## Overview of the Ventura County Assessment Roll

ASD's field appraisal team completed appraisals of 270 properties of all types assessed on the 1993-94 Ventura County assessment roll. This roll contained a total of 253,366 assessments having a total enrolled value of \$42,065,238,553. (For a detailed explanation of ASD's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the roll was composed by property type as follows:

<u>Property Type</u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Residential	192,706	\$ 28,295,855,343
Rural	5,214	1,850,871,867
Commercial/Industrial	41,607	11,626,532,509
Miscellaneous	<u>13,839</u>	<u>291,978,834</u>
Totals	253,366	\$42,065,238,553

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Ventura County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Ventura County Assessor's Office by the Board's Assessment Standards Division.

This survey was conducted according to the method mandated by Section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

### B. SUMMARY

Revenue and Taxation Code Section 75.60 requires the Board of Equalization to certify that a county is eligible to recover the administrative costs of processing supplemental assessments. In order to be eligible, a county assessor must achieve an average assessment level that is at least 95 percent of the assessment level required by statute, as determined by the Board's Assessment Standards Division (ASD) in its assessment survey.

Based upon ASD's sampling of its 1993 roll, Ventura County is eligible for reimbursement of the costs associated with administering supplement assessments. This implies that the assessor's program complies substantially with property tax statutes.

Budget constraints and lack of staff have been cited by the Ventura County Assessor or his staff, as the reason for not implementing many of the recommendations and suggestions from our 1994 Assessment Practices Survey; and, the reason why proper procedures weren't being followed during our current survey fieldwork. The assessor's budget has had

sizable cuts in recent years, as is shown in our Budget and Workload Comparisons report. We have recommended under ADMINISTRATION that a budget and workload study be conducted to determine just what is sufficient staffing for the Ventura County Assessor's Office.

In spite of budget cuts, all the Ventura County appraisers and auditor appraisers are current in their continuing education requirements. The assessor encourages upward mobility and continued education. A training bulletin board displays information on seminars, workshops, Appraisal Institute courses, SBE courses, and local college catalogs. We commend the assessor for recognizing the importance of continuing education.

As part of our review of REAL PROPERTY ASSESSMENT, we make a number of recommendations and suggestions. Under the subject of new construction, we recommend assessing landscaping added to newly constructed residences. When assessing land and offsite improvements, we suggest that the assessor implement the valuation procedures recommended by the Board in Letter to Assessors No. 84/51, to ensure that value is removed from the roll once dedicated streets are accepted by government entities.

We also suggest spot checking self-reported new construction as a way to verify information received, and documenting the source of unit costs used on residential building records. Lack of documentation prevents review not only of the costs used, but also of the value estimate.

The assessor's appraisal staff must determine fair market value of newly constructed improvements as of their completion date. For this reason, we suggest that entrepreneurial profit, which is a recognized increment of value, be considered when using the cost approach to value.

In our review of the building permit process, we found that permits for nonassessable new construction are regularly discarded. A listing of these discarded building permits would enable reviews for accumulated new construction, and we recommend compiling such a list. Furthermore, we suggest that all permits be logged onto appraisal records to provide a history of a property's additions, alterations, maintenance, damage, repairs, etc. All construction permit information is useful to an appraiser, and all permit information contributes to informed judgments as to condition, quality, and market value.

Tenant improvements can pose special problems for assessors' offices due to the necessity of communication and coordination between the real property and business property sections. Our review of the Ventura County Assessor's Office found no significant escapes or identifiable problems in this area of assessment. With regards to foreign improvements, the assessor's comprehensive written procedures insure the proper identification and assessment of those accounts reviewed.

Our review found the assessor not in compliance with Revenue and Taxation Code Section 75.18. The inflation factor required by Section 75.18 is not being applied to changes in ownership and new construction occurring between March 1 and June 30, the

“window period”. We recommend that the assessor make the necessary program changes to ensure its application in the future.

Many county assessors’ offices have had difficulties identifying parcels in special assessment districts and adjusting the sales prices for bonded indebtedness. The Ventura County Assessor’s Office appears to have a well coordinated system for ensuring that parcels impacted by bonded indebtedness are correctly identified and adjusted at the time of transfer. All such parcels reviewed were found to have been properly adjusted for outstanding bonds.

Our review of procedures for the valuation of income producing properties revealed an innovative software program used to store and display all available market and income data. This data is utilized by all the commercial/industrial appraisers and was used to develop the commercial and industrial library. The library consists of spreadsheets with value indicators, overall rates, and other pertinent information categorized by property classification. This market data program was developed by a principal appraiser as a means of meeting the demands of increased reviews of declining values. This appraiser should be commended for his innovation and dedication to finding more efficient assessment procedures.

The rural property files were found to be particularly well documented. Values were supported by comparable sales, replacement and historical costs, and other pertinent data. And most of the appraisal files we reviewed included diagrams showing the location of nonliving improvements, varieties of trees planted in orchards, and developed and undeveloped lands.

With respect to declines in values, the assessor’s staff has done a commendable job of actively seeking out declining market values. Appeals are handled by a separate appeals unit that is responsible for developing a value for all properties subject to an appeal, independent from the valuation unit. We found the appeals unit is well administered, and the staff experienced and knowledgeable in the law and tax rules pertaining to the appeals process.

During large scale disasters, the assessor’s staff has exhibited great diligence in identifying impacted properties. However, we recommend the assessor develop a program for cooperating with local fire departments in identifying damaged and destroyed properties.

Revenue and Taxation Code Section 155.20 authorizes the county board of supervisors to exempt low-valued real and personal property with a value so low that the amount of taxes collected exceeds the cost of collection. The Ventura County Board of Supervisors has not passed a low-valued property exemption resolution, and we suggest that the county assessor make a request that they do. Due to the assessor’s budget and staff constraints, it is now particularly important that he be able to allocate staff’s time to more productive and cost effective work.

There are roughly 2800 manufactured homes on the local property tax roll in Ventura County. The assessor’s staff has done a thorough job of assessing all eligible manufactured homes and accessories, but we make a two-part recommendation on those areas in need of improvement. The first is placing greater emphasis on the recognized value guides when

appraising manufactured homes. Secondly, the law states that the taxable value of a manufactured home shall be the lesser of its factored base year value or its current market value. For those manufactured homes already identified as declines in value, we found that they are annually reviewed to determine if further downward adjustment is necessary. But we found evidence that other manufactured homes, not already identified as declines in value, also need review. We recommend that the assessor annually review all manufactured homes for declines in value.

The county's California Land Conservation Act (CLCA) assessment program is administered very effectively by one principal appraiser. The program could be improved with the implementation of our recommendation to deduct from gross income a charge for return on and of investment for irrigation systems and recapture of irrigation wells. Irrigated land income includes income attributable to the irrigation system. If an amount is not subtracted out of income for interest on and of investment in irrigation systems and recapture of irrigation wells, a double assessment occurs.

Suggestions pertaining to the CLCA assessment program include revising the length and shape of the income stream assigned to CLCA orchards; revising dry grazing land procedures by using the Animal Unit and Animal Unit Month (AUM) as the indicator of market value; designing a questionnaire specifically for grazing and dry farmed lands for purposes of obtaining production, income, and expense information; and adding to the Agricultural Preserve Questionnaire questions as to who pays property taxes, irrigation system maintenance, and various assessment district charges.

After reviewing a large number of possessory interest appraisals, we concluded that the assessor's staff maintains well documented appraisal records and applies written procedures properly. We did, however, find one property leased from a redevelopment agency that is being incorrectly assessed as a possessory interest. Health and Safety Code Section 33673 states that these properties should be valued in fee and the tenant should pay property taxes on the entire property.

One of two suggestions we made in our 1994 Assessment Practices Survey, that being the use of an agricultural capitalization rate versus a commercial/industrial rate for grazing rights, has been implemented, and we commend the assessor's staff for incorporating this suggestion into their possessory interest program.

With regards to water companies, our research generated one recommendation and one suggestion. The assessor annually mails to all water companies the Utility Water Company Property Statement, which is not a Board approved form. The assessor's water company statement makes reference to Revenue and Taxation Code Sections 441 and 463, which cites filing requirements and calls for a 10 percent penalty for failure to file. These code sections are to be used only with Board approved forms, and we recommend the assessor remove the code citations.

Mutual water company shares are appurtenant to the land; the value of the water company is typically reflected in the value of the property served and to which the shares are attached. In these instances, to avoid double assessments, no value should be assigned to the water companies' lands, improvements, and delivery systems. Our review found the assessor has assigned taxable value to mutual water companies' properties, and in two cases it appears as though double assessments exist. We suggest that the assessor review all mutual water company assessments for double assessments.

Taxable government owned land, frequently referred to as Section 11 land, is property owned by government agencies but located outside their boundaries. We discovered 18 Section 11 parcels that are not currently assessed. We recommend the assessor review these parcels and enroll any taxable values.

Our review of the BUSINESS PROPERTY ASSESSMENT program resulted in several recommendations, the most important of which is to maintain a staffing level sufficient to allow completion of mandatory audits. None of the audits scheduled for 1995 were completed. Nine full time auditor appraisers are required for business property statement processing, roll corrections, etc. As a result, the number of auditor appraisers available to do mandatory audits decreased from eight in 1991-92 to two in December 1995. The audit staff can't fulfill their statutory requirement with so few auditors.

Auditor appraisers in the business property section have a practice of not enrolling "insignificant" escapes. However, because the criteria for determining an escape's significance is dependent on its relative percentage to a property's total assessed value, escapes of over \$500,000 are not enrolled, and refunds of over \$200,000 are not processed. Along with the practice of offsetting value differences for different tax years, this practice prompted a two-part recommendation to enroll all escapes and follow statutory requirements when determining audit results and enrolling escaped assessments.

The Business Property Statement includes a question designed to discover a change in control of legal entities. If an affirmative answer to the question is noted during processing, it should be referred to the transfer unit. Even though a referral to the transfer unit is required by office policy, we found several examples where they had not been referred. We therefore recommend that the assessor expand efforts to discover changes in control noted on the property statement and document that they have been investigated and resolved.

A review of private aircraft appraisals found that they are not valued annually. Furthermore, there is no annual aircraft questionnaire mailed to owners requesting the number of engine hours since the last major overhaul, or changes in equipment, condition, etc. All are needed to properly value an aircraft. Since most private aircraft appreciate in value each year, the assessor's procedures may result in aircraft being undervalued. An annual mailing of the aircraft questionnaire is recommended, as well as annual aircraft revaluations.

Other recommendations concerning the business property section include assessing racehorses according to statutory guidelines, annually appraising all boats at market

value, and requiring certain vessel owners to file annual vessel property statements and penalizing non-filing vessel owners.

Racehorses meeting certain criteria are exempt from ad valorem taxation. It is office policy to automatically exempt certain breeds with the presumption that they are racehorses. This can result in some horses being improperly exempted and escaping assessment.

Boats should be valued annually. The business property section values only one-third of all boats each year. In addition, when a boat is revalued, it is immediately depreciated 8 percent in an effort to arrive at a value that will be low enough to be used for three years, and not generate excessive appeals. Therefore, even in the year a boat is appraised, it is not enrolled at market value.

With regards to vessels, we recommend that certain vessel owners be required to file annual vessel property statements and that non-filers be penalized.

Overall, we found the Ventura County Assessor and his staff to be knowledgeable and highly professional. Written procedures are in place for most sections, but unfortunately budget cuts have resulted in staff reductions and forced the assessor to prioritize assessment programs and allocate resources accordingly.

Our budget and workload comparisons show that when the Ventura County Assessor's Office is compared to those counties closest in roll size, it ranked low or lowest in all categories of staffing, while ranking high or highest in the major types of real property activity (transfers, Prop 8's, miscellaneous roll changes). Furthermore, it ranked the highest, by a significant margin, in number of real property units worked and units worked per real property appraiser. We commend the assessor's staff for accomplishing so much despite a severely reduced staff and an increasing workload.

The infusion of AB 818 funds should help reduce backlogs, meet mandatory audit requirements, and allow attention to be focused once again on those assessment programs that have been of a lower priority.

## C. RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Ventura County Assessor's Office. Our recommendations are reserved for situations where one of more of the following conditions exist:

- Property tax statutes, Board Policy, or taxpayers' rights are being violated;
- Existing practices are improperly reducing or inflating local tax revenues;
- Existing appraisal practices do not conform to generally accepted appraisal theory.

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

### **RECOMMENDATIONS**

- RECOMMENDATION 1: Conduct a budget and workload study of the Ventura County Assessor's Office to determine a staffing level sufficient to fulfill all statutory requirements. (Page 17)
- RECOMMENDATION 2: Enroll escaped assessments in the manner prescribed by Section 533 of the Revenue and Taxation Code. (Page 17)
- RECOMMENDATION 3: Apply appropriate penalties for failure to file Change of Ownership Statements in a timely manner. (Page 22)
- RECOMMENDATION 4: Assess landscaping as new construction on newly constructed and recently transferred residential properties. (Page 25)
- RECOMMENDATION 5: Apply the inflation factor to changes in ownership and new construction occurring between March 1 and June 30. (Page 29)
- RECOMMENDATION 6: Develop a program for cooperating with local fire departments in identifying properties that may have been damaged or destroyed. (Page 39)
- RECOMMENDATION 7: Revise the program for the assessment of manufactured homes by: (1) placing greater emphasis on the use of recognized value guides for manufactured homes; (2) annually reviewing manufactured homes for declines in value. (Page 41)
- RECOMMENDATION 8: Deduct a charge for return on and of investment in irrigation systems and recapture of irrigation wells from the gross income of irrigated crop land. (Page 43)
- RECOMMENDATION 9: Revise the possessory interest assessment program by properly valuing redevelopment agency properties in accordance with the Health and Safety Code. (Page 45)
- RECOMMENDATION 10: Revise the Utility Water Company Property Statement which is sent annually to utility water companies. (Page 47)
- RECOMMENDATION 11: Review government owned lands located outside their boundaries that are not currently assessed and enroll any taxable value. (Page 49)

- RECOMMENDATION 12: Maintain a staffing level sufficient to allow completion of mandatory audits. (Page 53)
- RECOMMENDATION 13: Revise escape assessment procedures by: (1) enrolling all escape assessments; (2) following statutory requirements when determining audit results and enrolling escaped assessments. (Page 54)
- RECOMMENDATION 14: Expand efforts to discover changes in control noted on the business property statements and document that they have been investigated and resolved. (Page 57)
- RECOMMENDATION 15: Mail out the annual aircraft questionnaire and make engine hour adjustments when appraising private aircraft. (Page 59)
- RECOMMENDATION 16: Annually appraise aircraft at market value. (Page 60)
- RECOMMENDATION 17: Assess horses using statutory guidelines. (Page 61)
- RECOMMENDATION 18: Annually appraise all boats at market value. (Page 62)
- RECOMMENDATION 19: Require certain vessel owners to file annual vessel property statements and penalize nonfiling vessel owners. (Page 62)

### **SUGGESTIONS**

- SUGGESTION 1: Implement valuation procedures for subdivision lots as outlined in the State Board of Equalization's Letter to Assessors No. 84/51. (Page 26)
- SUGGESTION 2: Initiate a program for spot checking self-reported new construction. (Page 27)
- SUGGESTION 3: Document the source of unit costs on appraisal records. (Page 27)
- SUGGESTION 4: Consider entrepreneurial profit when valuing commercial and industrial new construction by the cost approach. (Page 27)
- SUGGESTION 5: Log all permits on appraisal records. (Page 29)
- SUGGESTION 6: Request funding for current aerial photographs. (Page 33)
- SUGGESTION 7: Request that the county board of supervisors pass a resolution exempting low-valued property. (Page 40)



- SUGGESTION 8: Revise the length and shape of the income stream assigned to CLCA orchards. (Page 43)
- SUGGESTION 9: Make certain changes in the CLCA program: (1) revise dry grazing land procedures as outlined in Assessors Handbook 521; (2) design a questionnaire for obtaining production and income and expense information from owners of grazing and dryfarmed lands; (3) add to the existing Agricultural Preserve Questionnaire by inquiring who pays property taxes, irrigation system maintenance, and various district assessments. (Page 44)
- SUGGESTION 10: Assess all qualified possessory interests at fairgrounds, auditoriums, civic, and community centers. (Page 46)
- SUGGESTION 11: Review all mutual water company assessments for possible double assessments. (Page 48)
- SUGGESTION 12: Revise the program for assessing cable television possessory interests by: (1) documenting the sources of rental data, capitalization rates, and terms of possession in appraisal files; (2) using audited data, including terms of franchise and income projections, when estimating values of possessory interests. (Page 50)
- SUGGESTION 13: Send second notices to those taxpayers who do not return waivers timely. (Page 54)
- SUGGESTION 14: Do not round the 10 percent penalty amount applied for failure to file or late filing of business property statements. (Page 56)

#### D. BUDGET AND WORKLOAD COMPARISONS

The following analysis utilizes the State Board of Equalization's A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices, 1994-95 dated May 1996. This report is a compilation and analysis of data by the Board's Assessment Standards Division originating from an annual questionnaire sent to all assessors.

The purpose of our analysis is to see how the Ventura County Assessor's Office compares with other counties that are similar in one or more important ways. We caution the reader that the budget and staffing of the Ventura County Assessor's Office, or that of its comparables, is not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties compare in total local roll units, net budget, total staff, units worked per appraiser, etc. No two counties are exactly alike, and a variety of factors can greatly affect individual budget and workload comparisons.

### Total Roll Units and Net Roll Value

The primary criteria used in choosing comparables for the Ventura County Assessor's Office is Total Local Roll Units. Roll size could be indicative of a minimally acceptable staff and budget level. In other words, counties close in number of roll units would presumably need similarly sized staff and budget. Of course, property type mix, ratio of rural to urban uses, and county size are also important influences, but in general Total Local Roll Units is considered a valid starting point.

<u>County</u>	<u>Total Local Roll Units</u>	<u>Total Secured Roll Units</u>	<u>Total Unsecured Roll Units</u>	<u>Total Net Roll Value in 000's</u>
San Francisco	226,161	172,394	53,767	\$ 57,261,874
San Mateo	245,388	212,743	32,645	\$ 56,654,322
Fresno	262,121	232,697	29,424	\$ 29,737,116
<b>Ventura</b>	<b>270,968</b>	<b>226,545</b>	<b>44,423</b>	<b>\$ 44,965,625</b>
Contra Costa	358,927	298,275	60,652	\$ 65,294,365
Kern	385,338	359,621	25,717	\$ 33,044,692
Alameda	443,412	384,257	59,155	\$ 79,201,224

In the above table, Ventura County is being compared to other counties closest in roll size. Ventura County is about average in Total Local Roll Units and slightly less than average in Total Secured Roll Units. Ventura also falls close to average in Total Unsecured Roll Units as well as Total Net Roll Value in 000's.

### Assessor's Budget vs. Assessment Roll

The following comparison is the amount of money budgeted per roll unit. This table reflects Net Budget, Budget Per Roll Unit, and Roll Value Per Budget Dollar. Ventura County is on the low end in Net Budget and about mid range in Budget Per Roll Unit. Only Alameda County is higher in Roll Value Per Budget Dollar.

<u>County</u>	<u>Net Budget</u>	<u>Budget Per Roll Unit</u>	<u>Roll Value Per Budget Dollar in 000's</u>
San Francisco	\$ 5,893,468	\$26.06	\$ 9.72
San Mateo	\$ 5,751,274	\$23.44	\$ 9.85
Fresno	\$ 4,186,153	\$15.97	\$ 7.10
Ventura	\$ 4,318,200	\$15.94	\$10.41
Contra Costa	\$ 7,056,846	\$19.66	\$ 9.25
Kern	\$ 4,965,773	\$12.89	\$ 6.65
Alameda	\$ 5,801,958	\$13.08	\$13.65

## Staffing

The following table shows Total Staff as well as the staffing units: Assessor and Other Managers, Real Property Appraisers, and Business Property Appraisers.

<u>County</u>	<u>Assessor &amp; Other Managers</u>	<u>Real Property Appraisers</u>	<u>Business Property Appraisers</u>	<u>Total Staff</u>
San Francisco	7	37	20	107
San Mateo	6	42	11	108
Fresno	4	42	14	129
<b>Ventura</b>	<b>3</b>	<b>34</b>	<b>11</b>	<b>96</b>
Contra Costa	7	50	12	126
Kern	5	38	13	94
Alameda	10	59	27	183

Ventura County is the lowest among its comparables with regards to Assessor and Other Managers, Real Property Appraisers, and Business Property Appraisers. As far as Total Staff is concerned, only Kern County had fewer staff members than Ventura.

The next table shows increases and decreases of staffing levels from 1992-93 to 1994-95.

<u>County</u>	<u>Total Staff 1992-93</u>	<u>Total Staff 1993-94</u>	<u>Total Staff 1994-95</u>	<u>% change from 1992-93 to 1993-94</u>	<u>% change from 1993-94 to 1994-95</u>
San Francisco	110	97	107	-12%	10%
San Mateo	113	106	108	-6%	2%
Fresno	130	130	129	0%	- 1%
<b>Ventura</b>	<b>129</b>	<b>113</b>	<b>96</b>	<b>-12%</b>	<b>-15%</b>
Contra Costa	128	126	126	-2%	0%
Kern	103	99	94	-4%	- 5%
Alameda	183	176	183	-4%	4%

As shown in the above two charts, Ventura County shows significant cuts in staffing. Between fiscal years 1992-93 and 1994-95, Ventura County's staff had been reduced from 129 to 96 positions. This was a decrease of 26%, which is the largest decrease among its comparables.

The following chart shows the budget and staffing history for the Ventura County Assessor's Office for the last seven years.

FISCAL YEAR	POSITIONS	ADOPTED BUDGET
1989-90	146	\$ 5,769,900
1990-91	149	\$ 6,013,300
1991-92	141	\$ 6,095,100
1992-93	129	\$ 5,946,600
1993-94	113	\$ 4,402,800
1994-95	96	\$ 3,656,100
1995-96	106	\$ 4,709,600

As noted above, the Ventura County Assessor's budget has experienced major fluctuations within the last several years, which seems to have affected their staffing levels.

#### Total Workload Per Staff Member

The next comparison is Total Roll Units Per Manager, Secured Roll Units Per Appraiser, Unsecured Roll Units Per Auditor Appraiser, and Total Roll Value Per Staff Member.

<u>County</u>	<u>Total Roll Units Per Manager</u>	<u>Secured Roll Units Per Appraiser</u>	<u>Unsecured Roll Units Per Auditor Appraiser</u>	<u>Total Roll Value Per Staff Member in 000's</u>
San Francisco	32,308	4,659	2,688	\$ 535,157
San Mateo	40,898	5,065	2,967	\$ 524,577
Fresno	65,530	5,540	2,101	\$ 230,520
Ventura	90,322	6,663	4,038	\$ 468,391
Contra Costa	51,275	5,965	5,054	\$ 518,209
Kern	77,068	9,464	1,978	\$ 351,539
Alameda	44,341	6,513	2,191	\$ 432,794

As shown earlier, Ventura County ranked below average in staffing levels. Therefore, it does seem logical that Ventura County reflects the highest in Total Roll Units Per Manager and is near the high end in Secured Roll Units Per Appraiser and Unsecured Roll Units Per Auditor Appraiser. However, it is about mid range in Total Roll Value Per Staff Member.

#### Units Worked Per Appraiser

The following table shows the comparison of Number of Real Property Units Worked Per Appraiser and Number of Unsecured Units Worker Per Auditor Appraiser.

<u>County</u>	<u>Number of Real Property Units Worked</u>	<u>Units Worked Per Appraiser</u>	<u>Number of Unsecured Units Worked</u>	<u>Units Worked Per Auditor Appraiser</u>
San Francisco	46,429	1,255	48,413	2,421
San Mateo	61,564	1,466	34,192	3,108
Fresno	60,211	1,434	29,576	2,113
Ventura	117,376	3,452	40,305	3,664
Contra Costa	79,464	1,577	52,927	4,411
Kern	45,867	1,207	28,593	2,199
Alameda	96,430	1,634	58,534	2,168

This comparison is consistent with that of Total Workload Per Staff Member. Ventura County is the highest among its comparables in the Number of Real Property Units Worked as well as Units Worked Per Appraiser by significant amounts. However they are mid range in the Number of Unsecured Units Worked and only Contra Costa County had more Units Worked Per Auditor Appraiser.

#### Real Property Activity

When comparing real property activity, we compared activities that entail the largest portion of the assessor's workload. They are Total Transfers, New Construction, Declines in Value (Prop 8), and Miscellaneous Roll Changes.

<u>County</u>	<u>Total Transfers</u>	<u>New Construction</u>	<u>Prop 8</u>	<u>Miscellaneous Roll Changes</u>
San Francisco	9,016	N/A	28,347	5,371
San Mateo	22,905	N/A	28,582	2,790
Fresno	20,146	N/A	14,502	14,773
<b>Ventura</b>	<b>32,646</b>	<b>N/A</b>	<b>54,158</b>	<b>21,112</b>
Contra Costa	20,135	12,113	23,988	22,818
Kern	18,081	10,980	3,333	12,531
Alameda	27,106	5,930	34,608	16,097

Once again Ventura County is highest among its comparables in Total Transfers and Declines in Value (Prop 8). It ranks second in Miscellaneous Roll Changes; only Contra Costa County is higher.

#### Business Property Activity

Six categories typically make up the business property work activities. The following categories are compared in the table below: Number of Boats, General Aircraft, Direct Billing, Property Statements, Field Appraisals, and Mandatory Audits.

<u>County</u>	<u>Number of Boats</u>	<u>General Aircraft</u>	<u>Direct Billing</u>	<u>Property Statements</u>	<u>Field Appraisals</u>	<u>Mandatory Audits (4 yrs.)</u>
San Francisco	2,073	-0-	25,391	14,890	5,443	2,018
San Mateo	11,065	403	8,770	13,234	-0-	363
Fresno	6,661	646	N/A	18,489	2,706	1,393
<b>Ventura</b>	<b>16,778</b>	<b>876</b>	<b>3,509</b>	<b>18,728</b>	<b>N/A</b>	<b>811</b>
Contra Costa	26,295	596	6,026	19,332	-0-	1,226
Kern	3,474	1,018	6,500	9,358	1,661	644
Alameda	14,901	877	11,428	23,380	6,016	1,935

Ventura County's comparisons in business property vary considerably. Ventura County ranks second in Number of Boats and third in General Aircraft and Property Statements. However, Ventura is lowest in Direct Billing and third lowest in Mandatory Audits (4yrs.).

### Conclusion

All of the comparisons made indicate that the Ventura County Assessor's Office may be inadequately staffed. The assessor confirmed with us that in his opinion his office is understaffed. Currently, for fiscal year 1996-97, Ventura County is receiving temporary relief with 18 appraisers who were hired through the use of AB 818 funds. These appraisers will work exclusively on declines in value (Prop 8), assessment appeals, and mandatory audits.

## II. ADMINISTRATION

### A. INTRODUCTION

The following sections under Administration will present recommendations and/or discussions on topics that affect both the real and business property sections, or their coordination.

### B. POLICY AND PROCEDURES

#### 1. Assembly Bill 818

At the time of the fieldwork for this survey, the assessor had applied for and received funding under the provisions of Chapter 914 of the Statutes of 1995 (AB 818). He has received funding in the amount of \$1,477,789. The funds will be used to:

- Hire 16 Appraiser I's
- Hire 4 Auditor Appraiser I's
- Hire 2 Appraiser Tech II's
- Hire 8 Office Assistant II's
- Use \$ 410,200 to supplant the 96/97 budget in order to maintain the 1995/96 staffing levels and prevent the layoff of 31 additional employees.

#### 2. Budget and Workload

As is shown in our Budget and Workload Comparison report, between 1992 and 1994 the assessor's office has experienced a 26 percent cut in total staff positions. The assessor's budget went from \$5,769,900 in 1990 to \$4,709,600 for 1995. In 1996, he applied for and received AB 818 funds, which has allowed him to keep his total staffing at 106. If not for those funds, he would have faced a 25 percent cut in his budget for 1996-97. This would have meant losing another 31 employees.

Our budget and workload comparisons indicated that when the Ventura County Assessor's Office is compared to its closest comparable counties in roll size, it was found to be low in staffing; have the highest number of total transfers, the highest number of Prop 8's, and the second highest number of miscellaneous roll changes; and, the highest number of real property units worked and units worked per appraiser.

Budget constraints and lack of staff have been cited by the Ventura County Assessor or his staff as the reason for not implementing many of the recommendations and suggestions from our 1994 Assessment Practices Survey. And it was given as the primary reason why proper procedures weren't being followed in several areas of assessment during our current survey fieldwork.

Monies available through AB 818 are for one year at a time, three years maximum. There is no guarantee that this funding will be continued beyond the current projected three years. The assessor needs a long term financial solution to ensure that he can fulfill all his statutory requirements.

RECOMMENDATION 1: Conduct a budget and workload study of the Ventura County Assessor's Office to determine a staffing level sufficient to fulfill all statutory requirements.

Several of our survey findings, which are detailed in this report, made it fairly obvious to us that the assessor's office is understaffed. Lack of staff has prevented the completion of mandatory audits for 1995, and the annual review of all manufactured homes for declines in value. Budget constraints are why boats are not annually reappraised and are immediately depreciated 8 percent when they are reappraised. Lack of staff explains the failure to request current information on private aircraft and the failure to value them annually. Furthermore, some racehorses may have been exempted improperly, and vessel owners are not being required to file annual vessel property statements.

We recommend that a Budget and Workload Study be done to determine a staffing level that will allow the assessor to carry out all his constitutionally mandated duties.

3. Escaped Assessments and Caption on Roll

Escape assessments are assessments made after the assessor has certified the completed local roll prepared pursuant to Section 601 of the Revenue and Taxation Code. Upon discovery of property that has escaped assessment, the assessor must immediately add the escape assessment and any applicable penalty or interest to the local roll. The assessor does not need the concurrence of any county official or board to enroll an escape assessment.

Section 533 of the Revenue and Taxation Code explains how the escape assessment is to be entered on the local roll. The escape is to be entered onto the roll for the current assessment year (as defined in Section 118). In addition, if the escape assessment is entered on a roll that is not the roll for the assessment years in which it escaped assessment, that is to say the prior year's assessment, then the entry must be followed with the caption:

"Escaped assessment for year 19\_\_ pursuant to Sections\_\_\_\_\_ of the Revenue and Taxation Code."

This requirement applies for both the secured and the unsecured roll, real property and personal property.

RECOMMENDATION 2: Enroll escaped assessments in the manner prescribed by Section 533 of the Revenue and Taxation Code.



When an assessment roll change (ARC) is made, the assessor's staff posts it next to the previously assessed value in red pencil and draws a red line through the previous roll value. A reference is also made to the ARC number. If an ARC is made for a prior year, then the roll book for that year is pulled and the new values for that year are likewise entered onto the roll for that year. If the roll changes are the result of an audit liability, the process is repeated for each year a liability occurs, often as much as three years prior to the current year.

All of the escapes should be posted to the current year's roll and the escapes for prior years should be noted on the roll with the proper caption. This method, as stated in Section 533 of the Revenue and Taxation Code, is explained in greater detail in Assessors Handbook 271, Assessment Roll Procedures.

We recommend that the Ventura County Assessor initiate a procedure that will insure that escapes for current and prior years will be posted to the roll in the current year, along with the proper caption as prescribed by Section 533.

With implementation of these changes, the assessor can be assured that escapes are posted to the proper roll in a manner that meets the requirements of the law.

#### 4. Training

The Revenue and Taxation Code contains specific educational and training requirements that must be met and maintained for a person to perform the duties of a county property appraiser for property tax purposes (see Sections 670 and 671.) The Board of Equalization is charged with ensuring that these requirements are met.

Section 671 of the Revenue and Taxation Code requires an appraiser to receive 24 hours of approved training each year in order to retain a valid appraiser's certificate. Advanced appraisers need only 12 hours of training each year.

To qualify for an advanced appraiser's certificate, one must have a minimum of six SBE courses with at least two classified as advanced. Outside courses that can be substituted for a SBE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

All Ventura County appraisers are current in their continuing education requirements. In addition, all of the appraisers who are qualified to hold an advanced appraiser's certificate have one.

The Ventura County Assessor's Office has a program called "Textbook and Tuition" in which money is allotted for training based on the appraiser's title. The assessor allots \$475 per appraiser (non-management) and \$2,000 per principal appraiser per year for training. In addition, appraisers are allowed to take two days off (16 hours) for training each year in which they can take advantage of various outside seminars, workshops, etc.

The assessor encourages upward mobility and continued education. A training bulletin board displays listings of current seminars, workshops, Appraisal Institute courses, SBE classes, and local college catalogs.

Overall, in spite of their budget and workload deficiencies, the Ventura County Assessor's Office has done an excellent job of maintaining training certifications.

### III. REAL PROPERTY ASSESSMENT

#### A. INTRODUCTION

Under our present property tax system, county assessor's programs for assessing real property include the following elements:

- (1) Revaluation of properties that have changed ownership;
- (2) Valuation of new construction;
- (3) Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government owned land; and
- (4) Annual review of properties having declining values ("Proposition 8" appraisals authorized by Section 2 (b) of Article XIII A ).

The statistics derived from the Assessment Standards Division's (ASD) assessment survey of the 1993-94 Ventura County local assessment roll indicates the overall quality of the roll for that year. ASD's sampling of 237 roll entries included 232 assessments of real property other than trade fixtures. Of these, 60 were appraised by ASD staff at values different from the values determined by the assessor's staff (38 were underassessed and 22 were overassessed). These sample item differences, expanded by statistical measurement to represent all real property assessed on the 1993-94 local roll, indicates about 22,675 properties were underassessed by approximately \$288,210,246, while about 14,860 properties were overassessed by approximately \$805,930,374.

The significance of these statistics is limited by the purposes for which they were created. In order to determine the total roll value, random samples were selected from three value strata. Expansion factors are then derived by dividing the number of roll units in a value group by the number of samples selected from that group. This is a statistical technique which is designed to accurately estimate the total roll value from a few sample appraisals. However, since the expansion process targets the total roll, rather than its components, we have less confidence in these expansion factors when they are applied to smaller groups within the total roll. Consequently, we use the expanded figures, referred to above, primarily to indicate areas worthy of study.

For this reason, readers are advised that the projected underassessment's and overassessments presented elsewhere in this report may not agree with the figures just presented. This could happen because one individual sample item may contain offsetting errors. The net "bottom line" differences can conceal the fact that there may have been two significant value differences in the appraisal, one positive and the other negative. We analyze line item differences rather than "bottom line" differences in order to accurately isolate the problems involved.

1. Change in Ownership

- a. Document Processing

Information on deeds and all recorded documents is sent daily by the Ventura County Recorder's Office to the Ventura County Assessor's Office in the form of a 16mm film reel. The reel contains all the recorded documents for that day and is sent to the assessor's Mapping and Property Transfer Department. The recorder's office also sends along a hard copy "fee sheet," which is used by the assessor's staff to cross check the film reel.

Paper hard copies of the recorded documents are made by the mapping clerical staff and include a specialized header that converts the document to a source document for the input of coded data to be used in describing the property on the maintenance and transfer run. The clerical staff screens the documents, sorting out any recorded documents that would have an impact on real property, personal property, or oil and gas leases. These documents are then batched for analysis.

Once the recorded documents are received by the deed analysts in the transfer unit, they are categorized and relevant data is entered into the appropriate sections of the header. The mapping department staff determines the assessability of the transfer and enters qualifying transfers onto the maintenance and transfer run. Information such as the type of transfer, type of document, percentage of interest transferred, number of parcels transferred, and homeowners' exemption status, is input from the header onto the maintenance and transfer run.

Partial interest transfers are indicated by the entry of an asterisk (\*) in the BSE.YR field on the header, following the (/). The percentage of the parcel that is transferred by the document is indicated by the entry of the percentage in the PCT.INT.APL field on the header. Documents indicating a potential Proposition 58 deferral of assessment are not immediately forwarded for encoding. The document control unit is made aware of the potential and mails a Proposition 58 claim and cover letter to the new assessee.

Documents for non-reappraisable events are analyzed and a summary appears in a separate area of the maintenance and transfer run. These parcels are put on the transfer run for count purposes and represent about 35 percent of all documents analyzed. The assessor's staff tries to do as much as possible to properly analyze the transfer and thus avoid having to go back and make a roll correction.

- b. Change in Ownership Statement

The recorder's office in Ventura County strictly enforces the recording requirements. The recorder's office requires that assessor's parcel numbers be listed on the standard deed document. Still, the assessor's mapping unit will decipher the legal description on the deed to insure that the appropriate portions of the parcel are included in the sale. The recorder's office requires that a PCOR be fully completed and turned in with the document for

recording, or a \$20 penalty will be assessed. However, some deeds do make it to the assessor's office without a PCOR, in which case they are coded to have a Change of Ownership Statement sent out.

Taxpayer reporting of transfers is crucial for confirming sales price, financing terms, parties and parcels involved, potential exemptions and exclusions, and transfer date. The management of the Ventura County Assessor's Office has the philosophy that receiving complete and accurate Change of Ownership Statements is more important than assessing penalties for non-filing. Therefore, they tend to give the taxpayer abundant time to respond. Penalties are assessed only as a last resort. The timetable for sending of Change of Ownership Statements is as follows:

First mailing:	The assessee has 50 days to respond.
Second mailing:	The assessee has 40 days to respond.

If there is no response after the second mailing, then a third mailing is sent via "certified mail" to get the attention of the taxpayer. If there is still no response, the document control department will investigate all other possible addresses for the assessee by checking with directory assistance, searching the Homeowners' Exemption index, as well as indices of other properties or businesses that the assessee may own. If an alternate address is found, a fourth mailing is sent to that address. When all attempts have failed to result in a response, an assessor's roll correction is initiated to add the penalty directly to the tax bill.

RECOMMENDATION 3: Apply appropriate penalties for failure to file Change of Ownership Statements in a timely manner.

While diligence by the assessor's staff in eliciting a taxpayer response is commendable, the tax law is specific about timeliness in the filing of Change of Ownership Statements. Section 482 of the Revenue and Taxation Code states that if a person fails to file a Change of Ownership Statement within 45 days after a written request by the assessor, the assessor shall add a penalty to the assessment. Should a penalty be applied but the failure to timely file was due to a reasonable cause, Section 483 allows the taxpayer to file a statement with the assessor and request abatement of the penalty through written application. The assessor's office should apply the penalty promptly upon expiration of the 45-day period. By not applying the penalty in a timely manner, the assessor is in effect extending the filing period without legal authorization.

Unrecorded transfers are discovered by the assessor's office in many ways. If there are suspicions that a transfer may have occurred, the mapping unit does not hesitate to send out letters requesting information, or even to call taxpayers. Often the business property section will alert the mapping unit of potential changes in ownership due to a new lease and a "Lease Information Request Letter" is sent out. Many leases are discovered when they are recorded. Likewise, land contracts and other deed changes are sought out by the mapping unit.

The Mapping and Property Transfer Unit causes a “Death of Real Property Owner--Change in Ownership Statement” to be generated when information is received indicating that an assessee has passed away.

c. Direct Enrollment Program

Property Tax Rule 2 states that the sale price of a property shall, in the absence of rebutting evidence, be presumed to be the value of that property. Because county assessors receive significant numbers of accurately reported sales prices for real property transfers, many counties have developed programs to allow those sale prices to be automatically enrolled as the assessed value of the property. The programs usually involve requiring that the transfer price fall within an acceptable range of value to ensure the price is equivalent to the market value. When large numbers of assessments can be automatically enrolled in this manner, it usually results in a significant savings of time and expense.

The Ventura County Assessor has limited the scope of the direct enrollment program to homogeneous residential properties such as tract home subdivisions and large condominium developments. Neighborhoods eligible for direct enrollment are recognized by their district/neighborhood identification code and their use code identifying them as condominiums and tract homes. Only properties with few variables, located in neighborhoods where values are consistent, are assessed by direct enrollment. An appraiser who is familiar with the neighborhood reviews the directly enrolled values to verify that the system is working. New tracts can be incorporated into an existing neighborhood under the direct enrollment program if the area is deemed compatible. Or, if a neighborhood experiences significant change, the area being directly assessed can be narrowed. Eligible neighborhoods generally fit the parameters of having a stable neighborhood market, a large degree of homogeneity, and a large enough market in terms of sales volume, market activity, and number of units.

If a PCOR is not submitted, or if there are inconsistencies on the PCOR, the sale is not considered for direct enrollment. One of the strengths of the direct enrollment system is the review process. Appraisers familiar with specific neighborhoods review direct enrollments for that neighborhood and can quickly determine if some change is causing the system to be less accurate. It is estimated that about 40 percent of the transfers in an eligible neighborhood are assessed by direct enrollment. The rest fall out due to partial interest transfers, multiple appraisal events, PCOR problems, etc.

Direct enrollment saves time by reducing the many steps needed to arrive at and enroll an assessment. Having fewer steps, it also reduces the likelihood of clerical errors. It is estimated that about 3000 parcels, representing approximately 30 percent of all tract sales, were assessed this way last year. While the assessor’s office appreciates the efficiency of direct enrollments, they are reluctant to greatly expand the scope of this program due to the need for accuracy. In its present form, the direct enrollment program is an efficient method for saving time and employee resources.

d. Legal Entity Ownership Program

Section 64(c) of the Revenue and Taxation Code provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of change in control. Discovery of real property transferred by a change in control can be difficult because ordinarily there is no recorded notice of a transfer of ownership interest in legal entities. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records. However, the Assessment Standards Division learns of unrecorded changes that occur by stock acquisitions through responses to questions appearing on corporate and partnership tax returns filed with the State Franchise Tax Board. Through the Legal Entity Ownership Program (LEOP), the Assessment Standards Division passes on information related to these transfers to county assessors' offices.

The Assessment Standards Division's LEOP section transmits to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control of the legal entity. The report includes the names of acquiring entities, the date stocks or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

While each of the reported change in control transactions are investigated and verified by the Assessment Standards Division, accuracy of the reported data is not guaranteed. County appraisal staffs are advised to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

During our survey fieldwork, appraisal records of properties listed on the LEOP report were randomly checked. In many cases, documentation of appraisal action triggered by changes in control of legal entities was found. In some cases, properties affected by transfers had been appraised but scarce documentation on property records made the appraisal process difficult to follow.

An additional source for the discovery of changes in control is the Business Property Statement (BPS) which contains a question designed to discover changes in control of legal entities. While examining the changes in control reported by LEOP, we cross checked the corresponding BPS to see if the taxpayer had noted a change in control. We discovered the taxpayer had indeed indicated a change in control on the BPS but the real property section had not been notified. Many of the transfers were not assessed until much later, often after notification by LEOP.

If the real property section were to receive notice of entity transfers when reported on the BPS, the transfers could be assessed in a more timely fashion. Our research indicates that more concentration is needed to ensure that when a transfer is reported on a BPS, that information is shared with the real property section and action is taken to assess the related real property.

This concern is highlighted in the Business Property Assessment section of this report where a recommendation is made under the heading “Changes in Control”.

e. Improvement Bonds

Bonds are a form of public financing usually associated with land improvements such as streets, domestic water systems, sewer treatment facilities, etc., that generally enhance the land value. Land benefiting from the improvements is pledged as security for the payment of the loan. When improvement bonds are a lien upon a site, their unpaid cash equivalent principal balance must be included in the value of the land. The appraiser should include the unpaid cash equivalent principal of any bonds outstanding as a legitimate sales price adjustment.

The Ventura County Assessor’s Office receives a list each September from the county auditor of special assessments by parcel, district, zone, and a contact person from each district. The list is used to identify parcels in beneficial assessment districts. Parcels having beneficial assessment bonds are coded with the symbol “b” next to the reappraisable event. In this way, appraisers are alerted to the existence of beneficial assessment bonds. All information pertaining to the exact amount of bonded indebtedness is obtained from the contact person for each district.

In order to determine if the assessor’s staff is properly adding the unpaid cash equivalent principal of bonds to sales prices, we obtained lists from the county auditor of parcels located in special assessment districts. After checking transfer lists for those parcels located within special assessment districts, the assessment of those transfers were analyzed to see if adjustments were being made. Examination of these parcels indicated that appropriate adjustments had been made to the sales prices.

2. New Construction

Our sampling of the 1993-94 Ventura County assessment roll included 80 sample items that were identified as “New Construction”. Twenty-nine were non-conforming for reasons related to new construction. Of these 29 samples, ASD’s appraised values were higher than the enrolled value in 19 cases; in 10 cases, ASD’s appraised values were lower. Value differences were due to escaped new construction (construction without building permits and additions to yard improvements), and appraisal judgment.

RECOMMENDATION 4: Assess landscaping as new construction on newly constructed and recently transferred residential properties.

In our 1993-94 sample review, we found that the Ventura County Assessor’s appraisal staff does not value landscaping after newly constructed residences transfer. Landscaping is an assessable component of value. It is the assessor’s policy to value landscaping only if it is included in the purchase price, or, if not, it becomes assessable when the property is resold.



It is the policy of ASD staff to value all additions to real property, however minor, that add value. Installation of landscaping after a transfer is usually done without a building permit, making it very difficult for the assessor's appraisal staff to discover landscaping escapes.

We recommend that the assessor increase his efforts to assess all qualifying landscaping additions by taking the following action: (1) instruct the appraisers to be constantly alert for signs of newly installed landscaping during their field review of new subdivision tracts; (2) develop a pilot program to determine the amount of escaped assessable landscaping and resulting loss of tax revenue, by inspecting sold homes in specific subdivisions; (3) include a periodic questionnaire in the regularly scheduled mailings.

a. Valuation of Subdivision Lots

Current constitutional and statutory law requires the assessor to determine the base year value of any assessable new construction. The law, however, is unclear as to the method of value allocation of newly constructed street improvements (paving, sidewalks, gutters, curbs, utilities, etc.), after the street improvements have been dedicated for public use.

SUGGESTION 1: Implement valuation procedures for subdivision lots as outlined in the State Board of Equalization's Letter to Assessors No. 84/51.

The Board's Letter to Assessors No. 84/51, establishes procedures for the valuation of subdivision lots and states "as the property previously identified for public use is accepted by a public agency, that portion is to be removed from the roll along with the proportional value allocated to such portion." The letter further provides that "the value ascribed to the public use property and the improvement value associated with such property cannot be allocated to the lots until there is a change in ownership of the lots."

Therefore, the value of the street improvements should be allocated over the entire subdivision acreage. When the street right of way and improvements are accepted by the government entity, only the value of land and improvements allocated to the street parcel or right of way can be removed from the roll.

The county staff uses an offsite worksheet to track the development stages of offsite improvements (streets) for newly created subdivisions. The assessment for these improvements is based on a cost per linear foot of street, divided by the total number of lots, for a per lot value assessment. The street area is not parcelized, nor is any value allocated to it; the value of street improvements are allocated only to the lots.

A review of subdivision Tract 4125-2 indicated that street improvements are valued as new construction to land when completed, and remain a base year assessment until transferred. Our review of the subdivision lots in Tract No. 4125-2 (Book 634, Pages 19 and 20) found that all street improvements were assessed as 100 percent complete for lien date 1995-96, but no value was removed from the assessment roll when the dedicated streets were officially accepted by the government entity on August 22, 1994.

We suggest that the Ventura County Assessor implement those valuation procedures outlined in Letter to Assessors No. 84/51 when assessing land and offsite improvements.

b. Self-Reported New Construction

The Ventura County Assessor has a self-reporting program for selected building permit activity. It is used for certain lower valued new construction. Information as to the rate of return for the self-reporting questionnaires was not available. However, it was estimated by the county that 60-70 percent of those returned were workable based on the information submitted.

SUGGESTION 2: Initiate a program for spot checking self-reported new construction.

Although we have no specific indications that the county assessor has made any erroneous appraisals due to inaccurate self-reporting, experience in other counties with self-reporting programs for new construction has shown random audits to be essential. A fixed percentage of self-reported new construction returns should be audited periodically to verify information received from property owners.

c. Construction Costs

SUGGESTION 3: Document the source of unit costs on appraisal records.

We found that the assessor's appraisal records for the majority of residential properties we sampled in 1993-94 contained no references as to the source of unit costs. Without the date and cost source cited, there is no way to confirm the validity of the value estimate.

We suggest that the residential appraisers note the unit cost sources on the appraisal records, including date of reference. The notations should be sufficiently clear to enable verification by a reviewer that the correct cost factors were used.

SUGGESTION 4: Consider entrepreneurial profit when valuing commercial and industrial new construction by the cost approach.

The commercial and industrial appraisal staff of the Ventura County Assessor's Office do not include an increment for entrepreneurial profit in their replacement cost estimates of commercial and industrial properties. In most instances, the actual construction costs, if reported, are utilized. If actual costs are not available, the appraisers rely on the commercial and industrial building costs from Marshall Valuation Service, Los Angeles County Assessor's costs, and their own in-house cost factors. Regardless of which replacement cost source is used, these estimates usually become the roll value for new construction.

The value the county appraiser should strive to determine is the fair market value of the newly constructed improvements as of their completion date. The costs used by the county

include most of the direct and indirect costs necessary to construct the improvement, but we could find no evidence that they take into account entrepreneurial profit.

Entrepreneurial profit is a recognized increment of value in the cost approach. It is the difference between the total of all direct and indirect costs and the fair market value, and must therefore be market derived. If a newly constructed property suffers from economic or functional obsolescence, there may be little or no entrepreneurial profit. In fact, an entrepreneurial loss may result under some circumstances; a property could be worth less than it actually cost to build or would cost to replace.

We suggest the assessor consider entrepreneurial profit when using the cost approach to value. Entrepreneurial profit is an important component of the cost approach and it must be considered in order to ensure that fair market value is being determined.

#### d. Building Permit Processing

There are 11 agencies that issue building permits in the County of Ventura. The county assessor's office receives permits in two formats: handwritten and computerized. The county assessor's staff received and processed approximately 26,794 permits in 1994/1995.

As permits are received daily, they are counted and recorded in a log book (labeled "Incoming Permits") by city, date received, and quantity. Incoming permits are screened by a clerical person who refers to a reference list for guidance as to what is discarded, kept, identified, or identified and encoded. Records are not kept on the number of discarded permits. Only a total numerical count is kept for employee work credit.

Permits are then put in assessor's parcel number (APN) order and researched for proper identification such as site use number, district, and neighborhood or cluster number. Permits, other than commercial, are then "encoded" with a maintenance classification code of 01, 02, or 03. Maintenance code 01 is for major new construction; code 02 is for minor new construction; code 03 is for minimal new construction--permit value less than \$10,000. Code 05 is used for commercial and industrial properties and the Business Property Statement (BPS) or schedule G from the business property section. Permits are then held until the data entry section furnishes an updated ownership list for the calendar week the permit was issued. This is a list of new owners triggered by deed recordings and other property transfers.

If more than one permit encoded with a maintenance code of 03 is received for the same parcel, each permit is assigned a batch number (batch I, batch II, etc.) based on its nominal value. This is done to ensure that each permit will be individually encoded.

After the permits are classified or encoded, a master control list is generated by APN and maintenance code to be used by the appraisers for assessment review.

Permits encoded 03 are routed to the data entry unit, where a New Construction Questionnaire (NCL) is generated and mailed to the taxpayer. The permit unit staff processes all

returned New Construction Questionnaires. The returns are identified and forwarded to the real property section for assessment. The number of New Construction Questionnaires mailed out between June 1995 and June 1996 totaled 3,552. The county does not keep track of the return rate for the questionnaire, nor are second notices sent.

Permits for commercial and industrial properties are processed differently than those for residential properties. Document control forwards all permits to the commercial and industrial valuation unit for review prior to encoding. All permits that are not encoded are special and miscellaneous permits. These are sent directly to the field appraisers.

**SUGGESTION 5:** Log all permits on appraisal records.

Building permits are intensively screened in the Ventura County Assessor's Office and an undetermined number of discarded permits are not documented on the residential appraisal records. We noted extensive documentation of permits on the commercial and industrial records. However, no records are kept of discarded residential permits.

All construction permit information is useful to an appraiser, whether or not a given permit involves assessable new construction. Appraisers need records of all permit activity in order to make informed judgments about current condition, quality, appeal, and market value. This includes those discarded because they were classified as maintenance or replacement.

Prior permit data can provide a property's history of alterations, additions, maintenance, and repairs of damage caused by fires or calamities. The more permit information documented for appraisal reference, the easier the task of making an appraisal adjustment and arriving at a market value estimate. This is especially true in the event of a nonmarket property transfer. A listing of all the component permits helps appraisers make and document a decision to reappraise. Permit data also furnishes valuable points of reference in validating the assessability of structural costs reported by taxpayers on Schedule B of the Business Property Statement.

We suggest that the processing of building permits be expanded to include the logging of all permits on the individual appraisal record. This should include all permits with assessable and nonassessable new construction in order to maintain continuity of records and provide full documentation for all appraisals.

**RECOMMENDATION 5:** Apply the inflation factor to changes in ownership and new construction occurring between March 1 and June 30.

For properties experiencing changes in ownership and/or completion of new construction between March 1 and June 30, Section 75.18 of the Revenue and Taxation Code requires that the new base year value enrolled shall be adjusted on March 1 following the reappraisal event by the inflation factor specified in subdivision (a) of Section 51.

ASD reviewed transferred properties within the March 1 to June 30 time frame for the 1996-97 roll year, and found that the Ventura County Assessor's Office is not in compliance

with Section 75.18. We found the same to be true of new construction samples reviewed from ASD's sampling of the 1993-94 roll.

We recommend that the county assessor apply the inflation factor according to Section 75.18 of the Revenue and Taxation Code.

e. Tenant Improvements

Tenant improvements (TI's) or leasehold improvements are defined as fixed improvements to rented or leased premises installed and paid for by the tenant/lessee or landlord. Tenant improvements can also be the original installation of finished tenant space in a construction project, and can be subject to periodic changes by succeeding tenants.

A portion of the Board-prescribed Business Property Statement (Schedule B of Form 571-L) is reserved for the reporting of costs expended by tenants for improvements to rented premises (land and buildings) where they operate their business, trade, or profession. The auditor appraisers in the business property section review reported costs on Schedule B of the Business Property Statement (BPS) for assessable tenant improvements. When indicated, the BPS is flagged and forwarded to the real property valuation unit for assessment.

The assessor's staff recently developed a new procedure for the assessment of tenant improvements in the major regional shopping malls. This written procedure requires an appraiser to treat tenant improvements such as store fronts, interior partitions, floor and wall finish, upgraded utilities and HVAC, and ceilings (including basic lighting), as a separate appraisal unit, which is assessed to the tenant on the unsecured roll. However, tenant improvements in spaces that are vacant on the lien date are assessed to the mall owner.

The reported cost of tenant improvements on the BPS is considered unreliable by the appraisal staff. Therefore, it is the staff's contention that in order to provide for a uniform and equalized assessment of tenant improvements, a standard cost factor should be developed and used. The standard cost factor is based on a typical 2,700 square foot store, with 30 linear feet of store front, and a 12 foot ceiling, as provided in the Marshall Valuation Service cost book. The appropriate adjustments are then made to the standard cost factor for size, use, and quality to fit the subject property being assessed.

ASD reviewed ten Business Property Statements with tenant improvements for (1) reported cost and description, (2) proper identification of TI's by the business property section, and (3) coordination between the business property section and valuation unit to ensure proper assessment. Of those reviewed, no significant escapes or identifiable problems were found related to the assessment procedures of tenant improvements.

f. Improvements on the Real Estate of Others

Improvements on the real estate of others, also known as "foreign improvements," are improvements located on land owned by someone other than the owner of the improvements.

Whenever there is separate ownership of land and improvements, the owner of either may file a request with the assessor, before the lien date, for separate assessments. The separate assessment will remain in effect until the assessor is notified of a transfer or cancellation.

ASD reviewed 15 foreign improvements located on lands owned by Southern Pacific Transportation Company. The assessor has a comprehensive written procedure in place for identifying and assessing foreign improvements and all accounts reviewed were properly assessed.

## B. SPECIAL PROPERTY TYPES AND PROCEDURES

### 1. Valuation of Income Producing Property

The Assessment Standards Division's (ASD's) sampling of the 1993-94 Ventura County assessment roll included 57 commercial/industrial properties. Of these, 20 had assessed values greater than \$4 million; three properties had assessed values greater than \$24 million; and one property had an assessed value greater than \$100 million.

Of the total sampling of 57 commercial and industrial properties, ASD appraised values and the assessor's enrolled values were in agreement in 44 instances, while 13 samples reflected valuation differences. There were 9 cases where ASD appraised values exceeded the assessor's enrolled values. This can be statistically expanded to the entire roll to indicate about 173 properties of this type were undervalued by an estimated aggregate difference of about \$643 million. For the four properties in which the assessor's enrolled values exceeded ASD appraised values, statistical expansion indicates that about 49 properties were overvalued by an estimated aggregate value of about \$7.7 million.

Those samples with value differences represent only about 23 percent of the total commercial and industrial sample surveyed. Of these, six were due to value judgment differences pertaining to the accessibility of new construction; four were minor trending errors (county failed to apply the proper annual index factor); one was a decline in value difference; one was an enrollment error; and one difference was due to the absence of an allowance for depreciation on new construction.

The sample results can sometimes uncover a systematic or inherent problem or problems with an assessor's valuation program, but, in this case, the statistical analysis of the value differences did not reveal any inherent problems that would degrade the valuation function, either directly or indirectly.

The commercial and industrial unit is headed by a principal appraiser and staffed with eight field appraisers.

The staff in the commercial and industrial unit attempt to use all three approaches to value. However, cost and square foot value indicators extracted from market sales are the two most frequently used. The income approach is used when reliable income data is available.

The appraisal staff take the position that the approach or approaches selected depends on the property to be appraised and the availability of market data. If good, supportive market data is available, the comparative sales approach is considered the best indicator of value and no further action is taken. If data from comparable sales are scarce, non existent or unreliable, then the cost or income approach will be considered in arriving at a value conclusion. Great emphasis is put on using the most applicable valuation approach that also produces the best estimate of market value.

The primary sources of cost information used for the valuation of income properties are as follows:

- a. Los Angeles Commercial and Industrial Cost Manual (LAC 532)
- b. Marshall Valuation Service
- c. Locally developed costs
- d. Historical costs

For sales and income analysis, the commercial and industrial appraisers have designed their own questionnaires. The questionnaires reviewed are well designed, comprehensive, and an effective tool for the collection of data. The appropriate questionnaires pertaining to new construction, sales, and income data are selected based on the activity triggering the review or revaluation.

All available market and income data is stored and processed using the Microsoft Excel program. All confirmed sales labeled 'market' transfers are maintained in Excel and used as needed by commercial and industrial appraisers or by the assessment appeals unit. The Excel program is equipped with a filtering tool that aids the commercial and industrial appraiser in making a quick selection of comparables when using the market approach. The filtered sales are then transferred to an adjustment grid worksheet with built-in formulas for calculating value. The adjustments can be made on a lump sum basis, or a dollar per square foot basis, on a percentage basis, or can be bypassed when appraising properties that require special attention.

The stored market sales provide a pool of data that was used to develop the commercial and industrial property data library. The library consists of spread sheets with value indicators categorized by property classification (industrial, retail, office), and contains pertinent information for evaluation and comparison. The library's square foot value indicators are based on the square foot value of a hypothetical subject property derived from sales with comparable characteristics and location. It also includes a listing of overall rates arranged by property use derived from sales in various parts of the county.

The property data program was designed and developed by the principal appraiser of the commercial and industrial unit in an effort to meet the demands of a large number of decline in value appraisals. He should be commended for his efforts in the design and development of the program. It reflects creativity and a dedication to finding new and better ways to make assessment procedures more efficient.

Our review of the county's commercial and industrial unit found that the appraisal staff are efficient and following accepted valuation principles and procedures.

## 2. Rural Property

We found the rural property appraisal files we reviewed to be well documented. Values are supported with comparable sales, replacement and historical costs, and other pertinent data. Diagrams indicating the location of nonliving improvements, species of orchards, and developed and undeveloped lands were also attached to most of the appraisals we reviewed.

In our 1994 assessment practices survey, we recommended that the assessor's staff assess water wells and enroll orchards when the exemption period expires. Water wells are now being properly assessed as land improvements, and trees are enrolled at the end of their four-year exemption period.

However, we did find a potential problem on two parcels with newly constructed irrigation systems. New drip systems were installed on these parcels, which were formerly irrigated with underground concrete pipeline. The appraisers classified the new construction as the difference between the replacement cost new (RCN) of the existing pipeline and the RCN of the new drip system.

The value of the new construction in these two instances is the value of the new drip systems. The base year factored value of the existing pipeline should continue to be assessed until it is removed, or until the market value of the appraisal unit (land, living improvements, and nonliving improvements) is lower than the base year factored value.

We suggest the Assessor's Procedures Manual be updated to include a detailed description as to what constitutes new construction.

### SUGGESTION 6: Request funding for current aerial photographs.

Aerial photographs can be a useful tool for appraisal purposes. If the photographs are reasonably current, they can be used to determine acreage of newly planted orchards or vineyards, the acreage and location of trees removed from an established orchard, or new construction (structures and land development) completed without permits.

The last aerial photography flight available to the assessor was flown in June 1989. At the present time, an updated aerial photography flight covering the whole county is not necessary. There are eight areas in the county in which we feel a current aerial photo flight would be very beneficial, and probably cost effective. These are: Yerba Buena, Santa Rosa, Casitas Pass, Moorpark Area, Camarillo Hills, Tierra Rejada, Santa Paula to Piru, and Ojai. It is estimated that 25-30 aerial photos will cover these areas at a cost of about \$4,000.



We suggest the assessor request funding for current aerial photographs covering these eight specific areas.

3. Decline in Value

Section 51 of the Revenue and Taxation Code requires the assessor to value taxable real property at the lesser of either its base year value, factored annually for inflation, or its current market value, as defined in Section 110. The factored base year value is commonly referred to as the “Proposition 13” value, while the current market value is commonly referred to as the “Proposition 8” value.

Recent legislation has amended Revenue and Taxation Code Section 4831 to permit roll corrections for up to one year after the delivery of the roll, if the purpose of the correction is to reflect a decline in market value. This permits the assessor to make decline in value reductions after the roll has closed, and should serve to reduce the number of assessment appeals.

In the 1995-96 assessment roll year, the Ventura County Assessor had reduced over 65,000 property values due to declines in market value. The assessor’s staff has taken the approach of actively seeking the identity of those properties that have declined in market value rather than waiting for those properties to be brought to their attention by the taxpayer.

In our prior survey, we noted that the assessor’s staff had developed a mass review and reduction program for residential properties. This program divided and arrayed sales of residences into three groups: tract homes, custom homes, and condominium units. Within these groups, sales from previous assessment years were identified and used to calculate an average selling price for each quarter of an assessment year. These quarterly averages, indexed forward by the appropriate CPI factor, were compared to the current average market value for each group as of the lien date under review.

This comparison indicated which quarter’s sales would need downward trending. The comparison also yielded the percentage of reduction necessary to adjust assessed values to current market levels. The appropriate percentage reduction for sales occurring in each quarter was then used to reduce factored base year values.

The assessor has recently replaced this program with a new system. Each real property unit has assumed the responsibility of recognizing its own reductions in market value. The rural/specialty property unit and the custom home unit continue to recognize market value declines by individually reviewing each property, while the condominium/tract home unit and the commercial/industrial unit have developed mass appraisal techniques.

In the condominium/tract home unit, an appraisal is completed for each model in each subdivision. Each model is assigned a standard value (i.e., no upgrades). Once this standard value is determined, it is applied to that particular model throughout the given subdivision. This value is a starting point from which adjustments can be made. For example, a home located on a

heavily traveled street with a swimming pool and 400 square foot bedroom and bath addition would be adjusted downward for the traffic nuisance and upward for the swimming pool and addition. After proper adjustments are made, a current market value can be determined and compared to the factored base year value. Annual sales listings are developed and used in this valuation process. All values are reviewed by the principal appraiser before being entered on the assessment roll.

In the commercial and industrial unit, a computer program listing is printed categorizing all types of commercial and industrial sales by site-use (type of business) and cluster code (location). Properties are further defined by building size, zoning, age, land to building ratio, and a variety of other characteristics. From these listings, comparable sales grids are created from similar properties and square-foot indicators are determined. This basic per square foot value is then referenced to the commercial and industrial library by a library number. The library consists of value indicators which are separated by use such as retail, office, and industrial. After locating the parameters which best represent the subject property, the library number can be referenced to an array of comparable sales that are reviewed and adjusted to arrive at an estimated value per square foot.

The appraiser and the principal appraiser review the sales listings with an estimated price per square foot for the given site-use and cluster area in mind. If a value is thought to be high, it is noted and further review is undertaken. If the property value is determined to be above market value, action is taken to reduce and enroll the current market value.

Once a property is determined to have a declining value, it is flagged by the computer system as a "PC-8." These declines in value are reviewed yearly by the staff and adjusted as necessary. A "Prop 8 Value Review Worksheet" screen has been designed and programmed into the computer system allowing for easy reference and comparison of factored base year values to current market values. The taxpayer is notified by letter of the reduced assessment and how that value compares with the factored base year value. It also explains the owner's right to appeal if he or she disagrees with the reduced value.

Overall, we feel the assessor's staff has done a commendable job of actively seeking out reductions in market value. Currently, with the help of AB 818 funds, the assessor and his staff are in the process of hiring 14 experienced appraisers on a one-year contract to work solely on decline in value appraisals and assessment appeals.

#### 4. Assessment Appeals

The assessment appeals workload for the Ventura County Assessor's Office has increased considerably since 1990. Beginning in 1990, real estate values fell sharply in California. This wholesale decline in market values resulted in factored base year values on many properties exceeding their current market value. This situation prompted many property owners to seek tax relief through assessment appeals.

For the 1993-94 assessment year, 4,632 assessment appeals were filed in Ventura County; and for 1994-95 there were 9,023. One of the reasons for the particularly large number of appeals in 1994 was that about 1,600 of them were pipeline right-of-way cases. The 1995-96 workload consisted of 7,162 appeals cases, out of which 3,516 have been resolved, leaving the remainder to be worked by September 1997 (prior to the two-year deadline.) The county estimates that about 6,500 cases will be filed in the 1996 filing period.

The steady increase in the number of value decline appeals, which represents the majority of appeals filed, has greatly impacted the assessor's office. There is currently a one-year backlog. The statistical breakdown of the 9,023 appeals filed in 1994-95 were for the following reasons: 964 (Base Year); 3,080 (decline in value); 1,624 ( assessor's roll corrections); 939 (supplemental assessments); 60 (1603(c)- late filings); and 9 (calamity). From this, 577 were denied/no appearance; 795 were reduced by assessor; 153 no change; 3,862 were settled by stipulation; 1,994 were withdrawn; and 1,642 applications remain open and are still pending litigation. Of the 1,624 applications pending, all have filed waivers of the two-year limit, and the balance of appeals for 1994-95 have been resolved within the two-year limit.

The Ventura County Assessment Appeals Board is appointed by the board of supervisors for a three-year term. In Ventura City and County, assessment appeals are handled by two assessment appeal boards of three persons each, with up to five alternate members and one hearing officer. The appeals board will hear applications for reductions in value affecting any property on the secured and unsecured roll brought before them for the following reasons: (1) value disputes as of the date of change in ownership; (2) completion of new construction ("base year value"); (3) decline in value assessment; and (4) disputes over the legal basis for reappraisal. The base year value can only be appealed during the same assessment year or in the succeeding three years.

The assessor's office first receives the appeals application and if the assessor and applicant cannot resolve the appeal or reach an agreement (stipulation), the applicant can choose to be heard by either the assessment appeals board or the hearing officer. Hearings before the hearing officer are less formal but follow the same rules of evidence. The appeals brought before the hearing officer are restricted to:

- (1) Property values not exceeding \$100,000
- (2) Single family residence, condominium or cooperative, and multiple family residence of four units or less, regardless of value.

The hearing officer will not resolve issues regarding penalty abatement and changes in ownership. Only the full board can confront those issues.

State funding, in the form of loans to the county made possible by the provisions of Chapter 914 of the Statutes of 1995, AB 818, will enable the county to hire four to five temporary appraisers to aid in the preparation and processing of stipulations and cases to be heard before the appeals board.

The county assessor's office has a separate unit responsible for assessment appeals headed by one principal appraiser with a staff consisting of two clerks, five appraisers, and one legal assistant (management position). This unit has the responsibility of developing a value for all properties subject to an appeal, independent from the valuation unit. The unit is also responsible for all communications with the appeal's applicant with regards to withdrawal or stipulation.

The bulk of the appeals cases are stipulated or resolved before reaching the hearing officer or appeals board. A stipulation must have a chief deputy assessor's and county counsel's approval and be signed by the chairman of the appeals board before it can be closed. However, if the applicant wishes to be heard before the appeals board, the assessor's appeal unit will gather and present evidence to defend its assessment.

Overall, our review indicates that the county's assessment appeal program is well administered. The staff is experienced and knowledgeable as to the law and tax rules pertaining to the appeals process, and abides by them.

#### 5. Assessment Roll Changes

Roll changes allow the assessor to change values on the roll after the roll has been closed. Pursuant to Sections 51.5, 531, 4831, and 4831.5 of the Revenue and Taxation Code, roll changes can be made for a variety of reasons. The most typical are escaped new construction (usually unpermitted), clerical errors, calamity relief (earthquake), and declines in value.

The Ventura County Assessor's Office processed 13,796 roll changes in the 1995-1996 assessment year. In addition, 821 changes were made to the supplemental roll.

Roll changes originate from either the valuation or the services unit. When a roll change is necessary, the processing procedures are as follows:

1. The appraiser creating the change completes a roll change form and obtains the required approval of a senior or principal appraiser. The roll change form is then sent to the clerical unit.
2. The clerical unit assigns an ARC (assessment roll change) number and logs it into an ARC log book for tracking purposes. It is then routed to the document control unit.
3. The document control unit will research, document, and process the ARC by:
  - a. Filling in the name, address, tax rate area, etc.
  - b. Completing a log card (their own mode of tracking within their unit).
  - c. Posting it to the roll book (hard copy).
  - d. Completing and mailing form letter to assessee advising of impending change.

- e. Copying completed ARC form and forwarding copy to data entry unit.
- f. Entering the ARC number onto the roll being prepared.
- g. Returning copy to document control where update is confirmed.
- h. Holding ARC for 10 days before forwarding to the county auditor, ensuring compliance with R& T Code Section 531.8.
- i. Forwarding a copy to the county tax collector.
- j. Maintaining a copy in the document control unit.

We reviewed nearly 100 secured property roll corrections. All procedures and Revenue and Taxation Code citations appeared to be correct.

#### 6. Misfortune and Calamity

Ordinance 3606 (amending 3327), titled “Provision for the Reassessment of Property Damaged or Destroyed by Misfortune or Calamity,” was passed by the Ventura County Board of Supervisors on August 3, 1982. This ordinance provides for disaster relief according to section 170 of the Revenue and Taxation Code and includes the following elements:

- 1. Damage must be in excess of \$5,000.
- 2. A 60-day time limit to file an application.
- 3. The assessor will, upon discovering damage, either reassess property and notify the owner or send a misfortune and calamity application to the owner. The owner should respond within 30 days.
- 4. Applications cannot be filed later than six months after the damage has occurred.

Additionally, the board of supervisors have adopted urgency ordinances providing for the deferral of property tax installments for properties sustaining substantial damage during certain large scale disasters.

Misfortune and calamity impacted parcels are generally discovered by the assessor’s office when a building permit is issued for repair or the taxpayer submits a claim form. Or, an appraiser may become aware of damaged properties during field inspections of the neighborhood and will request an application for misfortune be sent to the taxpayer. For large scale disasters, the assessor’s office works with other disaster relief organizations by manning relief stations and providing applications on site. In some extreme situations, such as the 1994 earthquake, the assessor’s staff has literally gone door to door in stricken areas to canvass for disaster damaged properties. During major disasters the assessor’s office will issue press releases to alert the public of the right for tax relief. However, the assessor’s staff does not, as a matter of routine, canvass local print media for reports of damage to properties, nor is there a system in place for the assessor’s office to receive reports of damage from local fire departments.

RECOMMENDATION 6: Develop a program for cooperating with local fire departments in identifying properties that may have been damaged or destroyed.

While the assessor's staff exhibits diligence in identifying calamity impacted properties during large scale disasters, a better job could be done identifying and handling fire damaged properties. During our review of this topic, we contacted the Ventura County Fire Department and obtained lists of properties that had been damaged by fire with value losses of a specified dollar amount. These reports listed the address of the property and the amount of the value loss. The fire department appears to have the capability to retrieve information on fires occurring several years back. It may be worthwhile to use this information to help identify misfortune and calamity damaged properties. We recommend that the assessor contact fire departments to determine the feasibility of initiating such a program.

Properties impacted by misfortune or calamity are processed and tracked on the maintenance and transfer run in much the same way as properties experiencing new construction maintenance. The maintenance and transfer run is divided up geographically so that the appraiser working in a particular neighborhood will receive all misfortune and calamity claims for that neighborhood. The appraiser completes the misfortune and calamity worksheets and determines the eligibility, date, and value loss attributable to the damage. The appraiser will temporarily remove value for the damaged portion of the property, usually using a proportional cost to cure method.

Damaged properties on the maintenance and transfer run are coded with a temporary value (PC) code of 5, which alerts the appraiser that this property needs to be continually reviewed until the damage is repaired. The maintenance and transfer run will continue to circulate the damaged property and issue reports until the appraiser restores the value. Each lien date a letter is sent to owners of reduced properties asking for a report on the status of repairs. If the letter is not returned, then the appraiser may assume that repairs have been completed and the value will be restored.

Revenue and Taxation Code Section 170 specifically states that in no case will applications for misfortune and calamity relief be accepted more than six months after the damage occurred. The assessor's staff uses a convenient worksheet to help determine if the six-month rule disqualifies a property from receiving relief. However, our review did find at least one case where the six-month rule was waived by the assessor's staff. The screening system had properly rejected the late filed claim, but the package was rerouted with a memo instructing the appraisal staff to process the claim. Due to the strong wording of this rule in Revenue and Taxation Code Section 170, it is inappropriate for the assessor's staff to waive the six-month rule.

7. Low-Valued Property Exemption

Ventura County has not passed a low-valued property exemption resolution. The assessor is properly enrolling all value changes on the assessment roll regardless of the amount.

SUGGESTION 7: Request that the county board of supervisors pass a resolution exempting low-valued property.

Revenue and Taxation Code Section 155.20 authorizes the county board of supervisors to exempt real and personal property with a full value so low that, if not exempt, the total amount collected in taxes, special assessments, and any applicable subventions is less than the cost of collection.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceeds the funds collected, and establish the exemption level uniformly for all classes of property. The full value exempted may not exceed \$5,000 (effective January 1, 1996).

Lacking a low-valued property exemption, the Ventura County Assessor is unable to take advantage of the purpose and benefits of the exemption. Devoting appraisal staff time to processing these low-valued assessments is not cost effective and prevents a reallocation of their time to more productive work. We suggest that the assessor request that the county board of supervisors pass a resolution exempting low-valued property.

## C. SPECIAL PROPERTY VALUATION AND PROCEDURES

### 1. Manufactured Homes

Manufactured homes have been taxable on local county tax rolls since July 1, 1980. Under current law, a manufactured home can become subject to local property taxation either because it was first sold new on or after July 1, 1980, or because the owner voluntarily requested conversion from vehicle license fee to local property taxation. The statutes prescribing how manufactured homes must be valued and assessed are Sections 5800 through 5843 of the Revenue and Taxation Code. There are also sections of the Health and Safety and Vehicle Codes that may apply to manufactured homes.

The assessment of manufactured homes in Ventura County is currently the responsibility of the rural/special property unit. There are approximately 100 rental parks in the county and about 10,000 manufactured homes. Of these 10,000, roughly 2,800 are assessed on the local property tax roll. The majority of the manufactured homes are licensed through Housing and Community Development (HCD) and therefore pay in lieu fees.

The transfer unit of the assessor's office receives all of the conversion notices and dealer reports of sale. The transfer unit determines if and when a change in ownership occurs. If a transfer is confirmed, no Change of Ownership Statement (COS) is sent to the taxpayer, as the valuation of the manufactured home is based on cost. The paperwork is then routed to the special property unit for appraisal.

The assessor's staff has done a thorough job of assessing all eligible manufactured homes and accessories; however, our review has indicated two areas in need of improvement.

RECOMMENDATION 7: Revise the program for the assessment of manufactured homes by: (1) placing greater emphasis on the use of recognized value guides for manufactured homes; (2) annually reviewing manufactured homes for declines in value.

Place Greater Emphasis on the Use of Recognized Value Guides.

When a manufactured home changes ownership, office procedure is to revalue the home and enroll either the dealer's reported sales price or the computed cost using the Los Angeles County Manufactured Home Cost Guide. Written procedures indicate that the appraiser should value manufactured homes, located on rented lots, using both NADA (National Automobile Dealer Association's Mobilehome/Manufactured Housing Appraisal Guide) and the Los Angeles County Manufactured Home Cost Guide. Then both values are to be entered on the appraisal records. A decision is then made as to what value should be enrolled.

We reviewed approximately 30 manufactured home appraisal files. We discovered that in most cases the NADA value was never enrolled and rarely documented. Revenue and Taxation Code Section 5803(b) states in part that "...the assessor shall take into consideration, among other relevant factors, sales prices listed in recognized value guides for manufactured homes, including, but not limited to, the Kelley Blue Book Manufactured Housing and Mobilehome Guide and the National Automobile Dealer Association's Mobilehome Manufactured Housing Appraisal Guide." Although written procedures state that the appraisers are to take NADA values into consideration, our review indicated that actual practice does not comply with suggested procedures.

We recommend that the assessor's staff document each appraisal file with the NADA value and consider it in the valuation of the manufactured home.

Annually Review Manufactured Homes for Decline in Value

Revenue and Taxation Code Section 5813 states that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its current market value as determined pursuant to Section 110 of the Revenue and Taxation Code.

Currently the assessor's office has enrolled nearly one-half of all manufactured homes, located on leased lots, as declines in value. Each home is reviewed annually to determine if further downward adjustment is necessary. This procedure involves costing out each home using the Los Angeles County Manufactured Home Cost Guide and comparing that computed value with the trended base year value. Again, we recommend that the county consult the required guides when valuing the manufactured homes.

Our review of appraisal records indicated there are other manufactured homes not already identified as declines in value that should be reviewed. Budget constraints and staff



reductions have prevented the assessor from reviewing all manufactured homes on a yearly basis. He anticipates devoting one of the appraiser positions made possible by AB 818 money to work exclusively on manufactured homes. We were told that decline in value appraisals using the NADA guide will be a top priority.

We recommend that the assessor annually review all manufactured homes for declines in value.

## 2. California Land Conservation Act

An agricultural preserve is established by contract between a landowner and the county, pursuant to the California Land Conservation Act of 1965 (Williamson Act). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e. g., hunting), and are assessed at the lesser of this restricted value, the current market value, or the factored base year value, as defined in Section 110.1 of the Revenue and Taxation Code.

Sections 422 through 430.5 of the Revenue and Taxation Code deal explicitly with the valuation of lands subject to agricultural preserve contracts. The Ventura County Board of Supervisors has implemented Revenue and Taxation (R&T) Code Section 423.3. This allows for a discount adjustment on the base year factored value of the land, not to exceed 70 percent on prime land, 80 percent on prime grazing land, and 90 percent on grazing land.

For the 1995-96 lien date, Ventura County had 140,920 acres encumbered by California Land Conservation Act (CLCA) contracts covering 1,524 parcels. Approximately 21,500 acres were in nonrenewal status, and 29,200 acres were enrolled under Revenue and Taxation Code Section 423.3 because these values were lower than the calculated restricted values. The total restricted, Section 423.3, and nonrenewal values on the 1995-96 roll amounted to \$565,255,891.

Primary use types for CLCA property in Ventura County are grazing & dry farm lands, irrigated crop lands, and orchards. Nearly all of the orchards are either citrus or avocados. The agricultural preserve assessment program is completely computerized, including the annual recalculation of nonrenewal values and the comparisons of current restricted value, Section 423.3 value, and current market value.

The CLCA program is administered very effectively by one principal property appraiser in charge of rural properties. He has compiled a comprehensive CLCA booklet which is updated annually. It contains standardized market tree values, production costs per acre, irrigation system and water costs, wind machine costs with typical costs to operate them, and other pertinent data used by the rural appraisers in maintaining quality CLCA values. In addition, the principal appraiser notifies his staff promptly, by memo, of any procedural or law changes that could impact their unit.

We have only one recommendation pertaining to CLCA properties in this county.

RECOMMENDATION 8: Deduct a charge for return on and of investment in irrigation systems and recapture of irrigation wells from the gross income of irrigated crop land.

Upon review of the CLCA booklet and numerous agricultural preserve appraisals, we found that no charge for return on and of investment in irrigation systems and recapture of irrigation wells is deducted from the gross income of irrigated crop land. However, except for recapture of wells, the rural appraisal staff does subtract the appropriate charges from orchard income when appraising living improvements restricted under a CLCA contract.

The irrigated land income includes income attributable to the irrigation system (i.e., fixed pumps, permanently installed pipelines), which in Ventura County is classified as an unrestricted nonliving improvement. Consequently, if an amount for interest on and of investment in irrigation systems and recapture of irrigation wells is not deducted from income, a double assessment occurs.

Wells are classified as land and the return on investment is included in the land capitalization rate; nonetheless, they are a wasting asset, and a charge for recapture must be subtracted from the income stream. County appraisers should be made aware that the economic lives of irrigation wells vary greatly. There are areas where wells will produce efficiently for 50 or more years, while in other locations wells require replacement in 10 to 12 years.

We recommend the principal appraiser direct his rural appraisal staff to begin deducting a charge for return on and of investment in irrigation systems and recapture of irrigation wells, when using the income approach to arrive at a restricted value for CLCA irrigated lands. He should also instruct his appraisers to determine if there are other expenses the property owner pays such as water, drainage, flood district assessments, irrigation system maintenance, etc., that should be considered when determining the income to be capitalized.

SUGGESTION 8: Revise the length and shape of the income stream assigned to CLCA orchards.

This suggestion was made in our 1994 survey; we repeat it here because it has not been implemented. A 20 year economic life is assigned to all orchards under CLCA contracts in Ventura County. This life has three distinct periods: increasing production (after the statutory 4-year exemption period) for years 5, 6, and 7; a stable production period for years 8 - 15; and declining production for years 16 - 20. The computer program discounts each year's net income during the first two periods to its present value using reversionary or level annuity factors. The final five years of declining income is directly capitalized by a rate which includes a 20 percent allowance for straight-line amortization of the trees.

The three-part income stream is recommended in Assessors Handbook Section 521A, The Valuation of Open Space Property (August 1990 edition); however, we do not agree with the procedure of applying the same inclining, stable, and declining periods to all species.

Avocados and oranges will typically require at least 12 years to reach maturity. It is not uncommon for 40 and 50 year old avocado and orange groves to remain in high production without increases in cultural costs. The principal appraiser agrees that stages of production vary between species. Their computer program is only capable of processing the three production periods previously mentioned. He stated they were in the process of reprogramming the computer when declines in value (Proposition 8) on other property types created other work demands.

We suggest reprogramming the computer to reflect more realistic stages of production and economic lives of trees.

SUGGESTION 9: Make certain changes in the CLCA program: (1) revise dry grazing land procedures as outlined in Assessors Handbook 521; (2) design a questionnaire for obtaining production and income and expense information from owners of grazing and dry farmed lands; and (3) add to the existing Agricultural Preserve Questionnaire by inquiring who pays property taxes, irrigation system maintenance, and various district assessments.

#### Revise Dry Grazing Land Procedures

Ventura County uses a per acre rent when valuing open-space dry grazing land. While applying an economic rent per acre is an appropriate method for many types of CLCA land, it fails to recognize the various capabilities and qualities of grazing lands (open, steep, brushy, rocky, etc.), and therefore is not recommended when appraising grazing land.

The Board's appraisers use the animal unit (AU), and animal unit month (AUM), as the indicator of market value income. Although the market rental rate is stated in dollars per acre, animal unit months (AUM's) must be considered when establishing comparability of sold properties, or comparing rental income levels for grazing lands. The animal unit is a simple and accurate method for comparing grazing lands. It is the most flexible measuring device for estimating carrying capacity, and thus productivity, of grazing lands.

A grazing land unit consisting of more than one parcel generally has areas that vary in carrying capacity. Assessors Handbook Section 521, The Appraisal of Agricultural Property, suggests that the total value of each grazing unit should be allocated to the individual parcels according to the carrying capacity of each parcel comprising the unit. It is improper to place an average value per acre on the entire unit. Similarly, areas of significantly different capability within a parcel should be separately estimated.

The county appraisers in most cases use the average price per acre rent for the total appraisal unit as a matter of expediency. The total value of the unit may be correct; however, if part of the unit transfers ownership or is split into new parcels, a value distortion could occur. We suggest the county appraisers use AU's or AUM's when valuing CLCA grazing lands, and make proper value allocations to each parcel based on productivity.

## Design a Questionnaire for Obtaining Production and Income and Expense Information on Grazing and Dry Farmed Lands

We suggest that the principal appraiser design a questionnaire solely for the purpose of obtaining information on grazing and dry farmed land production. This form should ask for the type of grazing operation (i.e., cow/calf, stocker, or both), number of head, months grazed, average weight and weight gain, supplemental feed required, and rent and expenses. The form should also include a question pertaining to income from compatible uses, such as transmission tower sites and hunting rights. The questionnaire should be mailed to each grazing and dryfarm landowner in the county, regardless of whether their lands are under CLCA contract or not, thus obtaining a broader range of rental data.

## Add to the Existing Agricultural Preserve Questionnaire

The existing Agricultural Preserve Questionnaire is very well designed for irrigated crop land and orchards. It solicits most of the relevant data in clear, unambiguous language. However, we suggest adding questions as to who pays property taxes, irrigation system maintenance, and various district assessments (water, flood, drainage, etc.). This will assist the appraisers in determining the proper expenses to deduct when using the income approach.

### 3. Possessory Interests

A taxable possessory interest (PI) exists whenever a private party has the exclusive right to the beneficial use of real property owned by a public agency. The Ventura County Assessor's Office has assigned one person from the real property section to handle all possessory interest appraisals.

We reviewed a large variety of (PI) appraisals including those for harbors, airports, grazing lands, fairgrounds, employee housing, and a redevelopment agency. In general, the assessor's overall procedures for maintaining the possessory interest accounts appear to be working well. The assessor's staff maintains well documented appraisal records and applies written procedures properly, with a few minor exceptions.

In our 1994 survey report, we noted two areas in need of improvement. We suggested changes involving the use of an agricultural capitalization rate to value grazing rights and an increase in the anticipated term of possession for hangars at public airports. Our review revealed that one of the two suggestions has been implemented. The appraisal staff now uses an appropriate agricultural capitalization rate for grazing rights as opposed to a commercial/industrial rate.

RECOMMENDATION 9: Revise the possessory interest assessment program by properly valuing redevelopment agency properties in accordance with the Health and Safety Code.

The Ventura County Assessor's Office is currently assessing as a possessory interest a property leased from a redevelopment agency. This property is being incorrectly assessed as a possessory interest.

Health and Safety Code Section 33673, clearly states:

“Whenever property in any redevelopment project has been redeveloped and thereafter is leased by the redevelopment agency to any person or persons or whenever the agency leases real property in any redevelopment project to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner as privately owned property, and the lease or contract shall provide that the lessee shall pay taxes upon the assessed value of the entire property and not merely the assessed value of his or its leasehold interest.”

We recommend that the county revalue redevelopment properties in accordance with the above mentioned Health and Safety Code Section. The property should be valued in fee and the tenant should pay property taxes on the entire property.

**SUGGESTION 10:** Assess all qualified possessory interests at fairgrounds, auditoriums, civic, and community centers.

The assessor's discovery program for possessory interests includes actively collecting and researching newspaper articles and sending letters of inquiry to potential possessory interest accounts. However, we did discover two areas of concern. First, we acquired a current listing of vendors, both food and non-food concessionaires, from the Ventura County Fairgrounds and compared these listings to the assessor's roll. Our findings indicated that the staff is not enrolling a number of these possible possessory interests.

Secondly, we found very little documentation on local auditoriums, or civic and community centers. These types of facilities often host annual plays or concerts that may be subject to possessory interest taxes. We realize that not all of the accounts may qualify under the statutory definition for possessory interests, but we are concerned that some taxable interests may be escaping. We encourage the assessor to review these accounts for possible escaped assessments.

#### 4. Water Companies

Water company properties assessed on local tax rolls may be either municipal systems on taxable government-owned land (Article XIII, Section 11 of the Constitution), private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by the CPUC, or mutual water company associations. Each type presents different appraisal problems.

## Municipal Water Companies

The Constitution of the State of California exempts from taxation property owned by a local government (Article XIII, Section 3(b)). This includes property owned by city water departments or water districts and located within city limits or district boundaries. When the water system is located outside of the local government's boundaries however, Article XIII, Section 11 applies. Publicly owned water system property located outside the city limits or district boundaries is taxable if it was taxable at the time it was acquired by the city or district. We discuss the assessment of taxable municipal water companies located outside their boundaries in this report under Taxable Government Owned Property.

## Private Water Companies Regulated by the California Public Utilities Commission (CPUC)

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return based on the companies' outstanding investment. Because the assessed values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

Our review of appraisal records for Ventura County's privately owned regulated water companies generated one recommendation.

RECOMMENDATION 10: Revise the Utility Water Company Property Statement which is sent annually to utility water companies.

The Utility Water Company Property Statement is mailed annually to all water companies and requires that all assets be reported on or before the 15th of April. The form cites Section 441 of the Revenue and Taxation Code as the authority on filing requirements. The property statement also refers to Section 463, which requires a 10 percent penalty for failure to file. These code sections are to be used only in conjunction with Board approved forms. The Board has not had an approved Utility Water Company Property Statement since 1978. We recommend the assessor remove these code citations from their Utility Water Company Property Statement, or utilize water companies' annual reports to the California Public Utilities Commission.

## Private Water Companies Not Regulated by the California Public Utilities Commission (CPUC)

Unregulated water companies are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated for profit. Unregulated private water companies may be found serving a manufactured home park or campsites. We did not review any appraisals of unregulated private water companies located in Ventura County.

## Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of its members. Corporations organized for mutual purposes are not subject to regulation by the California Public Utility Commission, unless they deliver water for compensation to persons other than stockholders or members.

When mutual water company shares are appurtenant to the land, the value of the mutual water company is typically reflected in the value of the property being served and to which the shares are attached. In such cases, we recommend no value be assigned to mutual lands, improvements, and delivery systems, so as to avoid double assessments.

**SUGGESTION 11:** Review all mutual water company assessments for possible double assessments.

There were 33 parcels classified as mutual water company parcels listed on the 1995-96 assessment roll. The land, improvements, and delivery systems located on these parcels were all assigned a taxable value. We contacted two water companies, and both stated that the shares were attached to the land and could not be sold separately.

We suggest that the assessor's staff obtain the following information from each mutual water company:

- (1) Articles of Incorporation and amendments to them;
- (2) Bylaws and amendments to them;
- (3) List of lands, improvements, and water distribution systems showing location and identity of each;
- (4) A listing of all assessor's parcels served by each mutual water company.

When this information is collected, the appraisal staff should review each parcel for possible double assessments.

## 5. Historical Property

Revenue and Taxation Code Section 439.2 provides a specific procedure for the valuation of certain historical property. Its purpose is to encourage the renovation and maintenance of historical properties throughout California by providing a tax incentive for owners of historical properties. It is similar in this respect to the Williamson Act, which encourages the preservation of agricultural land in return for a property tax incentive.

Government Code Section 50280 states that an owner of a qualified historical property that is privately owned and not exempt from property taxation may enter into a contract

with local governments. Section 50280.1 stipulates that in order for a property to be eligible for such a contract, it must be listed on the National Register of Historic Places, or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are reassessed annually at the lowest of their factored base year value, current market value, or restricted value. Furthermore, when valuing enforceably restricted historic properties, Revenue and Taxation Code Section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using the income capitalization method. In this method, a fair or market rent less “ordinary and necessary” expenses is capitalized by a rate that is not derived from the market, but is a sum of:

- (1) An interest component that is determined by the State Board of Equalization;
- (2) A risk component;
- (3) A component for property taxes; and
- (4) A component for amortization of the improvements.

Ventura County has one qualifying historical property. Our review indicated that the assessor’s staff has adhered to all prescribed valuation procedures.

#### 6. Taxable Government Owned Property

The provisions of Article XIII Section 11, of the California Constitution specify that property owned by government agencies, but located outside their boundaries, are taxable if they were taxable at the time of acquisition. Such property is frequently referred to as Section 11 property.

Article XIII, Section 11, mandates that the 1967 assessed value of these lands be multiplied by the appropriate factor supplied annually by the State Board of Equalization. This value is compared to the market value for the current lien date and the factored base year value. The lower of these three values must be enrolled as the taxable value for that year.

Existing improvements that were taxable when acquired by the government agency, are assessable at the lesser of their current market value, or their full cash value as defined by Article XIII A. New construction, with the exception of new improvements that replace previously taxable improvements, is exempt. Replacement improvements must be taxed at the lesser of (1) current market value; (2) full cash value as defined by Article XIII A of the California Constitution; or (3) the highest value ever used for taxation for the replaced improvements.

RECOMMENDATION 11: Review government owned lands located outside their boundaries that are not currently assessed and enroll any taxable value.



In our previous assessment practices survey, we noted several Section 11 parcels that were not being assessed. The assessor has since enrolled a taxable value on these properties. However, we did locate 18 more Section 11 parcels with no taxable value enrolled. Of these, one is a 4.13 acre parcel owned by the City of Ventura Water Department. Thirteen are abandoned railroad right-of-way lands that were purchased by the City of Ventura for a future bikeway. The remaining four parcels appear to be small rights of way and a 30 x 133.3 foot lot owned by the City of Oxnard and located in Port Hueneme.

The Valuation Division of the State Board of Equalization assessed the abandoned railroad right-of-way parcels prior to their acquisition by the city. The 1967 assessed values can be found on the Board's 1967 assessment roll.

We recommend the assessor review these Section 11 parcels and enroll any taxable values.

#### 7. Cable Television

The assessments of three cable television companies doing business in Ventura County were reviewed as part of our assessment practices survey. From these, we found a lack of documentation and that unaudited data was used in making value decisions. We believe implementation of the following suggestion will assist the Ventura County Assessor's staff in properly appraising these properties.

**SUGGESTION 12:** Revise the program for assessing cable television possessory interests by: (1) documenting the sources of rental data, capitalization rates, and terms of possession in appraisal files; (2) using audited data, including terms of franchise and income projections, when estimating values of possessory interests.

#### Document the Sources of Rental Data, Capitalization Rates, and Terms of Possession

None of the cable television PI appraisals reviewed reflected the source of gross rents/income, the derivation of capitalization rates used, or how the term of possession was determined. Only one of the files contained a copy of the franchise agreement between the cable company and the municipalities served. The sources of all data used to value PI's should be documented in the appraisal files. This leaves a trail for review purposes and provides the data necessary to answer taxpayer questions regarding the assessment. We suggest all source data be documented.

#### Use Audited Data, Including Terms of Franchise and Income Projections, When Estimating Values of Possessory Interests

Much of the data needed to value cable television PI's can be obtained when the assessor schedules an audit of the various cable television companies. The audit can verify past and current income, future income projections, franchise fees, duration of the franchise, etc. At

present, the assessor's staff relies on non-audited historical income data. They should be using a projection of future income and insuring that all income is being reported. We suggest the appraisal staff use audited data for valuing cable television possessory interests.

## IV. BUSINESS PROPERTY ASSESSMENT

### A. INTRODUCTION

The business property section of the Ventura County Assessor's Office assesses approximately 43,000 unsecured accounts, which includes over 25,000 vessels and 1,000 aircraft. The total assessed value for unsecured accounts is over \$2 billion. The business property staff mails out nearly 17,000 Business Property Statements (BPS), 1,500 vessel statements, 160 commercial vessel statements, nearly 60 applications for historical aircraft, approximately 350 agricultural forms, 220 apartment forms, and racehorse forms.

The business property staff are responsible for the reviewing and processing of all BPS's, vessel and commercial vessel statements, and applications for historical aircraft. The agricultural and apartment forms are returned to and processed by the rural appraisal unit, while racehorse forms are returned to the tax collector's office for processing.

The business property section is responsible for the valuation of business fixtures and equipment, personal property, boats, and aircraft. The section is divided into two units. The audit unit handles only mandatory audits, and assessment appeals on mandatory audits. The business property unit handles all other functions of the business property section, including all assessment appeals related to the valuation of business properties. Procedures require auditor appraisers from the audit unit to work three or four months a year helping to analyze and process returned BPS's.

Due to the economic conditions of the past few years, there have been severe cuts in the assessor's budget. This has resulted in a significant reduction in staff. The number of auditor appraisers assigned to do mandatory audits dropped from eight to a one time low of two in December 1995. Because of this reduction in staffing, and the necessity of devoting auditor appraisers qualified to do mandatory audits to processing BPS's, the assessor's staff have not been able to meet their mandatory audit requirement (the assessor has since hired three permanent auditor appraisers to do mandatory audits). The number of clerical staff in the business section has also been reduced from six to three positions.

The business property staff are well trained, highly professional, and their procedures are good. The assessor has obtained a loan of state funds for 1996-97 through AB 818, and four auditor appraisers have been hired to work solely on mandatory audits. This money has provided a temporary solution for catching up on mandatory audits. A more permanent solution must be sought.

The Assessment Standards Division's (ASD) sampling of the 1993-94 local assessment roll included 25 secured business property assessments and 35 unsecured business property assessments. ASD appraisals disagreed with the county enrolled values in 27 of the 60 sampled items. The local assessment roll values exceeded ASD's appraised values in 10 of the sampled items, while ASD's appraised values were higher in 17 cases. Expanded to represent the

total assessment roll, these sampled items indicate that the county made overassessments of \$93,406,774 and underassessments of \$199,328,118.

## B. AUDITS

### 1. Mandatory Audits

Because of the reduction in auditor appraiser positions available to do mandatory audits, none of the audits scheduled for 1995 were completed. These audits represented the 1990 through 1994 tax years, and some 1991 through 1995 accounts.

When these accounts are audited, and if escapes are discovered, the 1990, 1991, and 1992 years cannot be enrolled unless waivers of the statute of limitations have been signed by the taxpayers or their legal agents (see Section 532.1 of the Revenue and Taxation Code).

Even though the assessor's staff have made a concerted effort to get as many waivers signed as possible, only 40 percent of the waivers sent out are returned. The exact loss to the county cannot be estimated because audits with prior escapes do not necessarily equate to future escapes. But it can be an indication of potential loss.

If we use the enrolled escapes of \$22,521,100 in 1994-95, and \$10,239,900 for 1995-96, as indicators of potential loss for the county, it would equate to between \$10,000,000 and \$20,000,000 in property value not being enrolled.

RECOMMENDATION 12: Maintain a staffing level sufficient to allow completion of mandatory audits.

The assessor is required to audit certain accounts within prescribed time limits. Discharging this audit mandate is the most important function of the audit appraisal staff. Section 469 of the Revenue and Taxation Code states in part:

“In any case in which locally assessable trade fixtures and business tangible personal property owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business has a full value of three hundred thousand dollars (\$300,000) or more, the assessor shall audit the books and records of such profession, trade, or business at least once each four years....”.

There are over 800 accounts that fall under the mandatory audit provisions. Approximately 200 must be audited each year. Depending on the complexity and location of the audits involved, each auditor averages 25 to 35 audits each year. In addition, a total of 202 audits projected to have been done in 1995-96 were not done and there were 57 audit carryovers from 1994-95. Since the prior year's workload was not done, the 1995 audit cycle will include five-year audits, if the taxpayers in question returned the waiver of the statute of limitations that was sent to them (and more than 60 percent did not send the waivers back). Again, the workload will be increased due to five years being audited versus the four years under normal circumstances.

At the end of our fieldwork in the assessor's office, two full time auditor appraisers, four temporary auditor appraisers, and one assessment technician had been hired. The temporary auditor appraisers are being hired for a one-year term with money loaned to the county per AB 818. We strongly recommend that the assessor bring the audit staff back to its prior level of eight permanent full time auditor appraisers. Even at that level, the assessor will be playing "catch-up" for the next few years.

## 2. Waivers

SUGGESTION 13: Send second notices to those taxpayers who do not return waivers timely.

During our last survey, we suggested that the assessor document efforts to obtain a signed waiver of the statute of limitations when a mandatory audit will not be performed on time (R & T Code Section 532.1). The assessor has complied with this suggestion and made every effort to identify and send waivers to all taxpayers who will not receive a timely audit. He has also documented his efforts as we suggested, but as previously mentioned, fewer than 40 percent of all waivers are returned.

We believe that the assessor can increase this response rate with a second mailing (reminder). Other counties have found that an extra 20 to 30 percent of taxpayers respond to a second request. Each returned waiver has the potential for escapes and tax dollars that might otherwise have been lost.

## 3. Escape Assessments

RECOMMENDATION 13: Revise escape assessment procedures by: (1) enrolling all escape assessments; (2) following statutory requirements when determining audit results and enrolling escaped assessments.

### Enroll All Escape Assessments

The above recommendation is repeated from our 1993 survey report. However, the previous recommendation involved minor over and underassessment's. Due to the lack of personnel and the costs associated with processing small escapes or refunds, procedures have not been changed.

The practice of not enrolling so called "insignificant" escapes has escalated to the point that escapes of over \$500,000 are not enrolled and refunds of over \$200,000 are not processed for refund. This can happen when audit results are netted against each other and the differences are considered too small to enroll or refund. The criterion the assessor's staff uses is the percentage difference of over and underassessment's to the total assessed value of the property. If the percentage is considered too small, it is not enrolled.

For example, one audit we reviewed involved a four-year audit where over and underassessment's occurred each year; but, instead of enrolling the escaped years and refunding the overassessments, the auditor appraiser netted the four-year audit results. This resulted in a net \$122,700 underassessment (escape). The auditor appraiser then concluded that this result was only 2.4 percent of the total \$4,000,000+ value currently enrolled and "was therefore insignificant". Another audit remark made was that "the discrepancies were offsetting".

In another audit reviewed, three of the four years audited showed cost differences totaling \$470,730, and the remaining year of the four year audit showed over reported cost(s) of \$242,272. But, the auditor states "... the declared costs were materially per the books and records and there were no audit exceptions". The auditor's recommendation was that the taxpayer's reporting "be accepted as filed."

The assessor has no formal guidelines regarding audit results that are considered minimal or insignificant. There are no stated amounts that are considered too small to enroll. Notwithstanding this, we pointed out in our last survey that "since the Ventura County Board of Supervisors has not passed a low-valued property exemption resolution, theoretically even full values below two thousand dollars should be enrolled." The Ventura County Board of Supervisors still has not passed a low-valued property exemption resolution and our previous comments still apply.

With regards to the larger audit differences discovered during this survey, we cite Sections 531, 531.2, 531.3, and 531.4 of the Revenue and Taxation Code. Section 531 states in part: "If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment." The other code sections reiterate this for real property, personal property, and business property that have escaped assessment.

#### Follow Statutory Requirements When Determining Audit Results and Enrolling Escaped Assessments

In a multiple year audit, there are often underassessment's (escapes) for one year and overassessments (refunds) in another. The audit staff's practice of offsetting value differences for different tax years is improper.

There is no code provision for full value offsets. Rather, the statutory provision in the Revenue and Taxation Code, Section 533(2), allows for an offset of tax refunds against tax liabilities, not full values. This section states, in part:

"If the assessments are made as a result of an audit the tax refunds resulting from the incorrect assessments shall be an offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit."

If the assessor were offsetting the differences between different years and enrolling or refunding the net differences, he would still be in error. There could be tax rate differences for the years involved, accumulated penalties, and interest on escapes or overassessments. Tax liabilities include these calculations, and these calculations are the county auditor's responsibility, not the assessor's. The assessor's office should process full value underassessments and overassessments for the affected year(s) upon discovery, by audit or otherwise.

## C. BUSINESS PROPERTY STATEMENTS

The law requires that every person owning taxable personal property having an aggregate cost of \$30,000 or more for the first year, and \$100,000 or more in subsequent years, is to file a signed Business Property Statement (BPS) with the assessor. Every person owning personal property which does not require the filing of a BPS must, upon request of the assessor, file a signed BPS. When the taxpayer fails to file the statement, Section 501 of the Revenue and Taxation Code, gives the assessor the authority to make an arbitrary assessment of value. Additionally, Section 463 provides that "a penalty of 10 percent of the assessed value of the unreported taxable tangible property of such person placed on the current roll shall be added to the assessment made on the current roll".

**SUGGESTION 14:** Do not round the 10 percent penalty amount applied for failure to file or late filing of business property statements.

There are several circumstances under which it is proper to assess the 10 percent penalty:

- When the BPS is post marked after the due date of the statement;
- When the taxpayer does not file the BPS and it becomes necessary to make an arbitrary assessment based on a prior year's appraisal, physical inspection, or estimates based on available information;
- When property is discovered, such as leased equipment, after the due date of the statement and its value is \$30,000 or more.

When the above circumstances occur, the assessor's staff adds the 10 percent penalty to the value of the escaped property and then the total value is rounded down to the nearest hundred dollars.

Rounding this total value changes the actual percent of penalty applied to the value. There is no discretionary statutory authority that allows the assessor to modify the 10 percent penalty applied under Section 463.

This suggestion was made in the prior ASD survey; we again strongly suggest that the assessor's staff apply the 10 percent penalty to assessments without further rounding of the total value to be enrolled.

## D. CHANGE IN CONTROL

The annual Business Property Statement (BPS) includes a question designed to discover a change in control of legal entities. Such changes in control are considered changes in ownership which require reappraisal of all real property owned by the acquired legal entity, as of the date of the change in control. This information can be retrieved from the property statement as it is being processed, and referred to the transfer unit. A reappraisal generally results in upward revaluation and higher property taxes.

Transfers of real property are discovered when a deed is recorded indicating a change in ownership. However, reappraisable changes in the ownership of legal entities usually do not involve recording a deed and are therefore difficult to discover.

Those changes in control of legal entities that are reported on the state income tax return to the Franchise Tax Board are referred to the Assessment Standards Division's Legal Entity Ownership Program (LEOP). The information pertaining to each county is sent to the county assessors offices, and, in the case of Ventura County, is assigned to the transfer unit to be analyzed and worked.

RECOMMENDATION 14: Expand efforts to discover changes in control noted on the business property statements and document that they have been investigated and resolved.

During our survey, LEOP referrals were traced back to the legal entities' BPS filing. On several changes in ownership that had been processed from referrals made by LEOP, it was found that although the owner had noted the change on the BPS, there was no referral from the business property section in the transfer unit file.

The assessor's staff in both the business section and the transfer unit verify that it is policy that the business property section refer change in ownership information to the transfer unit. Exceptions found indicate that additional effort and attention to detail is needed to assure that changes in ownership noted on the BPS are properly referred to the transfer unit.

We recommend that efforts be expanded to discover changes in control that are noted on the BPS and referred to the transfer unit. The previous ASD survey suggested that a positive response system be initiated to ensure that referrals were made and had been investigated and resolved. We recommend that additional training be given to staff members who process BPS's, emphasizing the importance of referring positive responses to the change in ownership question directly to the transfer unit.

The BPS usually provides a more timely notice of a change in control than the LEOP notification. There is a significant time lag between the change in control and notification to the assessor from the LEOP notices. Timely changes and reappraisals would lessen the number of roll changes to be made and more promptly reflect the owner of record.

#### E. LEASED EQUIPMENT



In the business property section of the Ventura Assessor's Office, an auditor appraiser and a clerk are assigned the responsibility of processing and controlling the assessment of leased equipment and other business property. The Business Property Statements (BPS's) filed by leasing companies are assigned to this unit. These BPS's are reviewed, as all other BPS's are, to discover new leased equipment, leased equipment removed from the county, and new leasing companies. These findings are referred to the leasing unit. Our review found sufficient controls in place, with adequate procedures for the mailing, processing, and reviewing of leased equipment statements.

Previously, leased property had to be reported and assessed at the location where it was used. That requirement has changed. Now leased property may be reported at the lessor's principal office in the county, or at the county location where the lessor has most of the equipment. Although they are not required by law to do so, the assessor's staff attempts to distribute the values of leased property as equitably as possible throughout the affected county tax rate areas. We commend them for this effort.

In our previous survey, we found that the staff of the leasing unit did not analyze and use the information from the Form 600-B. This form lists equipment that is leased by public utilities and is not assessed to them as a part of their unitary operation. The Form 600-B is sent to each county by the Board's Valuation Division. As of the current survey, the Form 600-B is analyzed and the information derived from it is used to assess the leased items. We commend the assessor's staff for incorporating this procedure into their leasing assessment program.

#### F. PROPANE TANKS

There was a suggestion made in our last survey that the assessments for propane tanks should reflect a trade level adjustment. These accounts were all reviewed and it was found that the accounts that had been audited had been adjusted for a trade level on applicable equipment. Those not audited were not of an amount material enough to warrant an audit. Since adjustments had been made for the more relevant accounts, this suggestion is not repeated.

#### G. POLLUTION CONTROL EQUIPMENT

Division 27 of the Health and Safety Code (commencing with Section 44500), authorizes the California Pollution Control Financing Authority to acquire devices or facilities necessary to mitigate air and water pollution caused by private industrial operations in California. These devices are financed by bond issues arranged by the financing authority. The participating industrial user generally leases the pollution control device or buys it on a contract of sale.

The previous ASD survey contained a suggestion that such pollution control devices be traced through the audit procedure to determine if they are being properly reported by the taxpayers and correctly assessed. Reductions in business property staffing greatly reduced the number of audits performed and has prevented implementation of this suggestion. However, since there have been no pollution control bonds issued in Ventura County since the last survey,

this suggestion is not repeated; but, we do remind them to incorporate the previous suggestion into their current audit program.

## H. AIRCRAFT

Section 5363 of the Revenue and Taxation Code, states that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft prescribed by the Assessment Standards Division (ASD). Previous to the 1997 lien date, the Board had published aircraft valuation data each year in Assessor's Handbook Section 587 Aircraft Valuation Data. The Board no longer publishes this book and recommends instead that counties determine market value by referring to a commercially published aircraft price guide. On January 8, 1997, the Board approved the Aircraft Bluebook Price Digest as the primary guide for valuing general aircraft. In cases where aircraft are not listed in this price guide, the Board approved use of the Vref Aircraft Value Reference. The Board further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date.

An adjustment for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since the last overhaul, must be made to book prices to determine correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

RECOMMENDATION 15: Mail out the annual aircraft questionnaire and make engine hour adjustments when appraising private aircraft.

At the present time, the private aircraft appraiser in the assessor's office makes engine hour adjustments only when the aircraft is first acquired, or when the aircraft owner sends in the necessary information and requests that it be done. The business property staff does not automatically mail out an annual questionnaire to all private aircraft owners requesting information such as engine hours since the last overhaul.

Adjustments for engine hours, as well as adjustments for condition and added equipment, can have a substantial impact on the value of aircraft and need to be considered annually to determine market value. This recommendation was made in the last survey, but no changes to the procedure have been made.

We recommend that the assessor's staff mail a questionnaire to the owners of private aircraft annually requesting the number of engine hours since the last major overhaul, as well as other changes in equipment, condition, situs, and ownership. We recommend that the assessor's staff use this information when making annual market value determinations.

As stated in the Revenue and Taxation Code Section 5301, it is the purpose of the legislature to provide for a uniform system of property taxation for all aircraft in the state, regardless of its location within the state. In order to achieve this goal, it is necessary that all

aircraft are valued on a yearly basis. Private aircraft tends to appreciate in value and should be valued each year to prevent any loss of revenue.

RECOMMENDATION 16: Annually appraise aircraft at market value.

The Ventura County's appraisal records reflect that aircraft is valued primarily through reference to AH 587 for the base values. Other values are established by the selling price or by a county board stipulated value. Once the value is set, this same value is assessed for each subsequent year until it is reappraised. Because most aircraft increase in market value each year, this method may result in aircraft being undervalued. Of 15 aircraft appraisal records that were selected for review, 2 were valued as of the 1994-95 tax year, 7 were valued as of the 1993-94 tax year, and 6 were valued in prior years. All but two were significantly undervalued when compared with the 1996-97 edition of AH 587.

We recommend that the assessor delegate staff to annually reappraise all private aircraft. The monies collected from property taxes on private aircraft are equally divided between the county, city, and school district where the aircraft are habitually kept.

## I. RACEHORSES

All property, unless specifically exempted, is taxable under mandate of Article XIII of the California Constitution. Horses are taxable, but several categories of horses have been exempted. For example, pets are exempted under Section 224, and horses as business inventory are exempted under Sections 129 and 219. Property Tax Rule 133 extends the inventory exemption to animals used for the management of livestock. Thus, the fact that many horses are subject to property taxation does not affect ranchers who use their horses to work with cattle, or people who have pet horses solely for personal use and enjoyment.

Racehorses and show horses are the two main categories of horses used in a trade or business that are subject to taxation. Each category includes the associated breeding stock. Racehorses are taxed at a lower rate than other taxable horses, because the tax is based on the racing category for which the horse qualifies and not the value of the horse. Show horses (and other horses used in a trade or business that are not exempt) are taxed as personal property in the same way as any other item of business property would be taxed.

Racehorses domiciled in California have been subject to an annual tax in lieu of the ad valorem property tax since 1973. The provisions of this tax are contained in Sections 5701-5790 of the Revenue and Taxation Code.

In order to meet the racehorse definition as stated in Section 5703:

- A horse must have actually raced;
- A horse must be registered or eligible to be registered as a race horse in one of the five "eligible to race" breeds stated in Property Tax Rule 1046: thoroughbreds, quarter horses, standard breeds, Appaloosa horses, and Arabians;

- If the horse is over four years old in the case of Arabians (three years for all others) and never raced, the horse must have been used for breeding purposes in order to produce racehorses during the preceding two years.

In Opinion No. 86-107, the Attorney General's Office interpreted Section 5703 to mean county assessors should look into the facts and circumstances of a particular case before automatically allowing racehorse status to an Arabian horse. The opinion further states that other criteria such as pedigree, breeding, age, training, and intent of owner need to be considered on a case by case basis to determine eligibility.

**RECOMMENDATION 17:** Assess horses using statutory guidelines.

The appraisers exempt from ad valorem taxation all breeds of horses that could be eligible for taxation as racehorses, without considering whether they meet the required criteria as noted in Section 5703. When the annual property statement is returned listing horses used in conjunction with a trade or business, it is office policy to automatically exempt thoroughbreds, quarter horses, standard breeds, Appaloosa horses, and Arabians as racehorses.

When horses of these breeds are excluded from taxation on the annual property statement, there should be a cross check to verify that a racehorse reporting form has or will be mailed to the same taxpayer. If not, some horses may be improperly exempted and escape assessment. ASD staff believes that, if an owner were reporting horses on the racehorse form, it is not likely they would report them again on the annual property tax form.

This recommendation was made in our previous survey and the assessor acknowledged that he does not attempt to track the breeding and/or racing records of racehorses because of budget constraints. We continue to recommend that the assessor adopt policies and procedures in the assessment of horses that conform to the provisions of Section 5703. We also recommend that the assessor's staff establish a procedure so that horses reported on the annual property statement will not be exempted from ad valorem taxation unless it is verified that these horses are being reported as racehorses.

Implementation of the above recommendation would ensure that all taxable horses are being assessed and that the assessment of horses is in compliance with Section 5703.

**J. VESSELS**

The Ventura County Assessor's business property staff assessed 25,283 boats and documented vessels for the 1996-97 tax roll, with a total assessed value of \$182,300,130. In addition, they valued 109 commercial vessels that qualified for a four percent assessment. These commercial vessels were valued at \$6,913,300 and assessed at \$276,532. All of the applications for the four percent valuation were mailed out by the county and were timely filed by the taxpayers. Other boat exemptions, such as claims for relief under the Soldiers and Sailors Civil Relief Act, were also mailed and received in a timely manner.

The main discovery methods of vessels are harbor master reports, dock walks, referrals from other counties, and Department of Motor Vehicles (DMV) reports. The assessor's office has a computer terminal with a direct link to DMV boat registration records, which provide sales data and descriptive information about registered boats.

RECOMMENDATION 18: Annually appraise all boats at market value.

Several of the boat valuation books (BUC and ABOS), are available for appraisal use, in addition to information from DMV. It has been the business property section's policy for some time to value only one-third of all boats each year. A lack of staffing has necessitated other shortcut procedures in boat valuations. Previously, when a boat was revalued, that value remained the same for three years, or until the boat was sold or disabled. Since boats usually depreciate each year, many owners whose boats were assessed at the same values for three years in a row sought tax relief through the appeal process.

In an effort to find a value that could be applied for the three-year period and not generate excessive appeals, the business property staff now depreciate boat values eight percent at the time of reappraisal; this reduced value is then entered onto the appraisal record and becomes the assessed value for the three-year period. This may reduce the number of appeals or protests, but the result is that even in the year that the boat is appraised, it will not be assessed at market value.

We recommend that the current procedure be revised so that the market value of boats will be reflected on the roll in the year they are appraised. We recognize that with current budget constraints it may be some time before there is sufficient staff to value all boats annually, as they should be. However, it is important that in the year that boats are appraised, at least the one-third appraised for that year be enrolled at market value. Appraisal of all boats annually will ensure correct boat assessments and uniform boat valuations throughout the state.

RECOMMENDATION 19: Require certain vessel owners to file annual vessel property statements and penalize nonfiling vessel owners.

When the assessor's staff discovers that a new boat or one from outside the county now has situs within the county, a "Boat/Vessel Report of Personal Property" is mailed to the owner. No other information is routinely requested unless a boat is sold, wrecked, stolen, destroyed, abandoned, or permanently moved outside the county. As a result, upgrades or new equipment can go unassessed.

Revenue and Taxation Code Section 441, requires owners of taxable personal property with an aggregate cost of \$100,000 or more for the initial assessment year, to file a property statement (for boats this is Form 576-D). Thereafter, a statement is required when the aggregate cost exceeds \$100,000, or the assessor specifically requests a property statement filing. If this statement is not completed and returned in the time allowed, Revenue and Taxation Code Section 463, requires that a 10 percent penalty be assessed.

We recommend that the Ventura County Assessor's Office annually mail out Form 576-D to all owners of vessels with an original cost of \$30,000 or more. This will provide them with current and accurate information regarding replacement engines or new accessories when making vessel appraisals. This recommendation was made in the previous survey, but since no change has been made to the existing practice, we are repeating it. Obtaining current information from boat owners will facilitate more accurate vessel appraisals.

#### K. COMPUTER VALUATION

Computer valuation tables were provided to all assessors by the State Board of Equalizations Letter to Assessors, No. 96/27 dated April 3, 1996. These tables were used by the business division as the basis for valuing computer reports on the Business Property Statements pertaining to the March 1, 1996 lien date.

## THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing <sup>1/</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's Assessment Standards Division (ASD) on a five-year cycle and described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
- (2) These assessments are stratified into three value strata <sup>2/</sup>, identified and placed into one of five assessment categories, as follows:
  - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous ASD assessment sampling

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<sup>1/</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>2/</sup> The three value strata are:

1. \$1 to \$199,999;
2. \$200,000 to \$1,999,999;
3. \$2,000,000 and over.

- b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling.
  - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling.
  - d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.
  - e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.



- (4) The field investigation objectives are somewhat different in each category, for example:
- a. Base year properties -- for those properties not reappraised since the previous ASD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
  - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
  - c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
  - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?
  - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

- (6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the Assessment Standards Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



# county of ventura

GLENN E. GRAY  
Assessor

April 22, 1997

William B. Jackson, Chief  
County Property Tax Division  
State Board of Equalization  
P. O. Box 942879  
Sacramento, CA 94279-0062

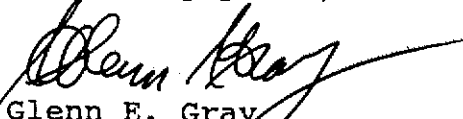
Dear Mr. Jackson:

Attached is our response to the State Board of Equalization's Assessment Practice Survey of Ventura County pursuant to Government Code Section 15645.

We agree with most of the 19 recommendations and 14 suggestions, and have already implemented changes. Due to budget constraints, however, some recommendations cannot be implemented at this time.

I wish to thank you and the survey team for the professional manner in which the survey was conducted.

Very truly yours,

  
Glenn E. Gray  
County Assessor

GEG/mjo

Attachment

**Recommendation 1:** Conduct a budget and workload study of the Ventura County Assessor's Office to determine a staffing level sufficient to fulfill all statutory requirements.

We agree a study is needed. However, the Assessor has concerns as to who will do the study and what could be done if the results support additional staffing.

**Recommendation 2:** Enroll escaped assessments in the manner prescribed by Revenue and Taxation Code Section 533.

The Ventura County Assessor agrees and will comply with Revenue and Taxation Code Section 533.

**Recommendation 3:** Apply appropriate penalties for the failure to file Change of Ownership Statements in a timely manner.

The Ventura County Assessor agrees and has amended the office procedure for applying penalties.

**Recommendation 4:** Assess landscaping as new construction on newly constructed recently transferred properties.

We agree that newly constructed landscaping has often escaped assessment. This is not the Assessor's policy, but is attributable to a lack of resources necessary to pursue the assessment of all new construction.

**Recommendation 5:** Apply the inflation factor to changes in ownership and new construction occurring between March 1 and June 30.

It is the Assessor's policy to follow Revenue and Taxation Code Section 75.18. Base year values on transferred properties were established for the 1996/97 roll year and placed on the computer file.

The base year value is maintained on the file and receives the required inflation factor annually. Based on knowledge of the marketplace, it was the Assessor's opinion that those transferred properties' market value as of lien date 1996 was less than the base year value factored for the period March 1 to June 30. We enrolled a Prop 8 value.

**Recommendation 6:** Develop a program for cooperating with local fire departments in identifying properties that may have been damaged or destroyed.

The Ventura County Assessor is in the process of developing a program to receive information from local fire departments.

**Recommendation 7:** Revise the program for the assessment of manufactured homes by: (1) placing greater emphasis on the use of recognized value guides for manufactured homes and (2) annually reviewing manufactured homes for declines in value.

Beginning with the 1997/98 assessment year, we converted our system for valuing manufactured homes from using cost approach guides to market value guides. We now use the N.A.D.A. system.

We recently completed reviewing manufactured homes for declines in value using the assistance of a fixed-term appraiser hired under our AB 818 contract. An annual review will not be possible because of a lack of resources.

**Recommendation 8:** Deduct a charge for return on and of investment in irrigation wells from the gross income of irrigated crop land.

We agree this recommendation should be implemented. The goal is to have our computer program modified for the 1998/99 assessment roll to allow an improvement charge to be deducted from the income stream.

**Recommendation 9:** Revise the possessory interest assessment program by properly valuing redevelopment agency properties in accordance with the Health and Safety Code.

We have initiated a new procedure to accomplish this. We are still waiting for guidelines from the State Board on how individual assessments should be made.

**Recommendation 10:** Revise the Utility Water Company Property Statement which is sent annually to Utility Water Companies.

The pertinent Revenue and Taxation Code Sections, 441 and 463, have been altered or removed from the form.

**Recommendation 11:** Review government owned lands located outside their boundaries that are not currently assessed and enroll any taxable value.

The Assessor has a new system to review transfers of government owned properties. We found that clerical errors had occurred in working transfers of the parcels named in the recommendation. The errors have been corrected.

**Recommendation 12:** Maintain a staffing level sufficient to allow completion of mandatory audits.

The Assessor agrees that more permanent staffing is needed. Using money from the AB 818 loan, the Assessor has hired four fixed-term Auditor-Appraisers and one fixed-term Appraisal Technician to work on the backlog. This is a temporary solution at best.

**Recommendation 13:** Revise escape assessment procedures by: (1) enrolling all escape assessments and, (2) following statutory requirements when determining audit results and enrolling escaped assessments.

Our mandatory audit procedures have been changed to implement these recommendations.

**Recommendation 14:** Expand efforts to discover changes in control noted on the Business Property Statements and document that they have been investigated and resolved.

Our operating procedures have been changed to provide us with a more effective means to discover and follow up on unrecorded changes in ownership.

**Recommendation 15:** Mail out the annual aircraft questionnaire and make engine hour adjustments when appraising aircraft.

We initiated the mailing of an annual aircraft questionnaire beginning with the January 1, 1997 lien date.

**Recommendation 16:** Annually appraise aircraft at market value.

We agree that aircraft should be appraised annually, but we must have adequate staffing and sufficient training to accomplish this. Part of our problem in the recent past was directly attributable to the resignation of our Marine/Aircraft Appraiser and to our inability to provide adequate funding for a trained back-up appraiser. We have staffed the position with a fully trained appraiser and we hope to restore an annual appraisal cycle.

**Recommendation 17:** Assess horses using statutory guidelines.

Our position on this repeat recommendation is unchanged since the previous (1994) Assessment Practice Survey. The Assessor agrees that the statutory authority of Section 5703 does not grant exemption status simply on the basis of breed. In accordance with a March 1990 Ventura Superior Court ruling, it is the Assessor's opinion that Section 5703 does not require the Assessor to consider, on a case by case basis, pedigree, training, and intent of an owner to determine eligibility for racehorse tax treatment.

Consistent with the advice provided by our County Counsel's Office, we grant racehorse tax status to horses that: (1) meet the breed registration requirement and (2) are reported to have either raced, or within the past two years have been used for breeding purposes to produce a horse eligible to race. The Assessor does not attempt to track the breeding and/or racing records of each horse of an eligible breed that is located within Ventura County because of significant budget constraints.

**Recommendation 19: Annually appraise all boats at market value.**

We agree this should be done. Our response to this recommendation is similar to that for Recommendation 15, regarding the annual appraisal of aircraft. Both functions are performed by one appraiser with the assistance of an Appraisal Technician. We are hoping to reestablish a triannual cycle for boats. To establish an annual appraisal cycle would require budget resources beyond our present ability.